UK public spending

Is means testing a solution?

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Information technology

Why some companies missed the revolution

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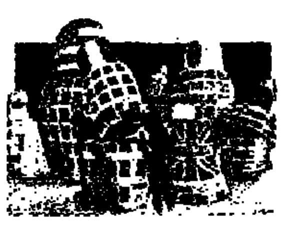
World stock markets

Five years since the October crash

Page 19



Surveys

● *International mergers and acquisitions* Pages 25-29

● *Italian industry* Pages 9-12

FT NEWSPAPER of THE YEAR

FINANCIAL TIMES

Europe's Business Newspaper — MONDAY OCTOBER 19 1992 — D8523A

Serb tanks shell Sarajevo as relief route is reopened

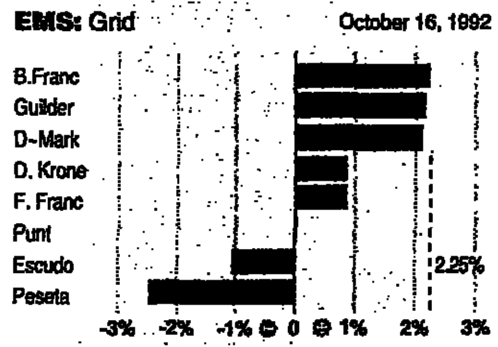
Serbian tanks shelled Sarajevo, killing at least 17 people and wounding more than 150, ending the longest lull in fighting the Bosnian capital had enjoyed for several months. The relief supply route to the besieged city had only just been reopened. Earlier report, Page 4

China boosts military role: Appointments to the Chinese Communist party's central committee reversed a 15-year decline in the role of the army. The new leadership of the country's top decision-making body is better educated and largely free of nepotistic influence. Page 18

European Monetary System: The D-Mark eased within the EMS grid, as hopes for an early cut in German interest rates grew at the end of last week. Speculation about a German rate cut was fuelled both by figures showing that retail sales fell sharply in August, and by the reduction in UK base rates to 8 per cent.

The escudo dropped to the bottom of the grid on fears that it would be devalued. However, the Portuguese currency closed at 89.43 to the D-Mark, some way above its exchange rate floor of 92.336 per D-Mark. Currencies, Page 35

EMS: Grid October 16, 1992



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Russian coup plot claim: Allies of Russian president Boris Yeltsin claim that an alliance of parliamentarians, industrial managers and communists is plotting to overthrow the government and derail market reforms. Page 4

EC budget talks: EC finance ministers will today reopen talks on the Community budget amid growing concern that governments are no closer to solving Europe's fundamental economic problems. Page 3

German sales fall: Retail sales in western Germany fell by a real 5.1 per cent in August, providing further evidence of German economic stagnation. Page 3

Bombay tax raids: It is unclear whether the scandal-hit Bombay stock exchange will reopen today after trading was halted on Friday because of income tax raids on leading stockbrokers. Page 6

Del Monte Foods International, canned fruit and juices company, is being sold to a joint venture between Royal Foods and Anglo American Corporation for £360m ($620m) – roughly 14.5 times historical earnings. Page 20

Nigeria's troubles grow: Nigeria's military government was increasingly beleaguered at the weekend, as doubts about transition to civilian rule added to the economic crisis. Page 6

Costain, troubled UK construction group, is expected to announce details of the sale of its profitable Australian coalmining subsidiary. Favourite to acquire the business is Peabody Coal, a subsidiary of Hanson. Page 20

European car sales rise: New car sales in west Europe rose by an estimated 4.7 per cent in September, the strongest monthly year-on-year increase this year, thanks to a rise in demand in Germany and smaller European markets. Page 4

BCCI report: The UK government, in response to the Bingham report due to be released on Thursday, may recommend that the Bank of England become more aggressive in its supervision of banks. Page 18

Standard Bank Investment Corporation, South African banking group, is raising about R650m ($232m) through a rights issue which will enlarge its capital base by 10 per cent. Page 21

Kuwaiti cabinet named: Kuwait's opposition welcomed the appointment of six deputies to the cabinet, but complained that the ruling al-Sabah family had retained its grip on the most powerful ministries. Page 5

Storehouse, UK retailing group, is negotiating the sale of Habitat, its home furnishing chain, to Swedish furniture retailer, Ikea. Page 20

Unita accused: The Angolan government, on the brink of war with the main opposition Unita party over the results of last month's elections, accused its rival of planning to seize the south and partition the country. Page 6

Colombia volcano erupts: A volcano erupted in north-west Colombia killing at least 10 people and showering residents in Antioquia province with boiling mud, according to Red Cross officials.

German hostel attacked: Youths beat up and shot at the residents of a hostel for foreigners in eastern Germany, attempting to rape three women, according to police in the town of Thale, Saxony-Anhalt.

Government hopes proposals will win over party rebels

UK to announce extra help for mining areas

By Ralph Atkins and Philip Stephens in London

THE UK will today announce extra help for coal-mining communities in a make-or-break attempt to avert a government defeat by Conservative rebels over plans to eliminate more than 30,000 jobs.

As the government faced its most perilous week since Mr John Major became prime minister nearly two years ago, officials and ministers were last night still working on a package of training and other measures for Mr Michael Heseltine, the trade and industry secretary, to announce when the House of Commons returns from recess this afternoon. The cabinet has been summoned for a special meeting this morning to discuss the situation.

The backbench revolt grew over the weekend with the number of Tories promising to defy the government in Wednesday's vote approaching the 11 needed to wipe out its majority. With others saying privately they would either defy whips or abstain, a defeat seems likely unless Mr Heseltine's statement persuades MPs to reconsider.

Although ministers insisted yesterday that there was no alternative to the closures, it is possible Mr Major may decide to halt the closures pending a rethink if a defeat looks inevitable after today.

Mr Major will face criticism of his handling of the economy and the Maastricht treaty as well as the pit closures when he lunches today with the executive of the 1922 committee of backbench Conservative MPs.

One 1922 executive member said: "I'm still loyal to John Major. I hope he survives. But he won't if he continues in this way."

Page 8

■ First annual rise in UK sales since May

■ Trades Union Congress seeks broad coalition

Page 16

■ Editorial Comment

A protest march by miners to Westminster has been organised for Wednesday and the Trade Union Congress plans a London rally next Sunday. In Cheltenham, in western England, yesterday, 3,000 miners' supporters marched through the town to protest against pit closures.

The Coalfield Communities Campaign will today try to stop the pit closures by asking for a judicial review of the "failure" of the Office of Electricity Regulation to ensure that electricity is produced from the cheapest fuel – which it says is coal. Leaders of unions representing nuclear power workers are also expected to back the miners.

Mr Heseltine's statement will include help for redundant miners, and others whose jobs are threatened by the closures, via the employer-led Training and Enterprise Councils. He may give mining areas special status to encourage regeneration.

But it was unclear last night how much extra money he would win from the Treasury in addition to the £1bn ($1.66bn) mainly for redundancy payments, he announced last week.

Mr Heseltine has angered at least one cabinet minister – Mrs Gillian Shephard, employment secretary – for failing to ensure that his colleagues were properly briefed before the announcement of closures last Tuesday. But yesterday he said that colleagues had been informed.

Mrs Shephard was in Wales chairing a meeting of European Community ministers as the cabinet committee met to agree the closures and was not briefed on the details until hours later. Ironically, she will today meet chairmen of 14 English Tecs, covering mining areas hit by the closures, to discuss details of the extra help that will be given.

Aides to Mr Norman Lamont, the chancellor, were forced to deny a rift between him and Mr Heseltine over the closures.

Speaking on BBC Television, Mr Heseltine said that there was no alternative to the decision to close 31 of British Coal's 50 pits.

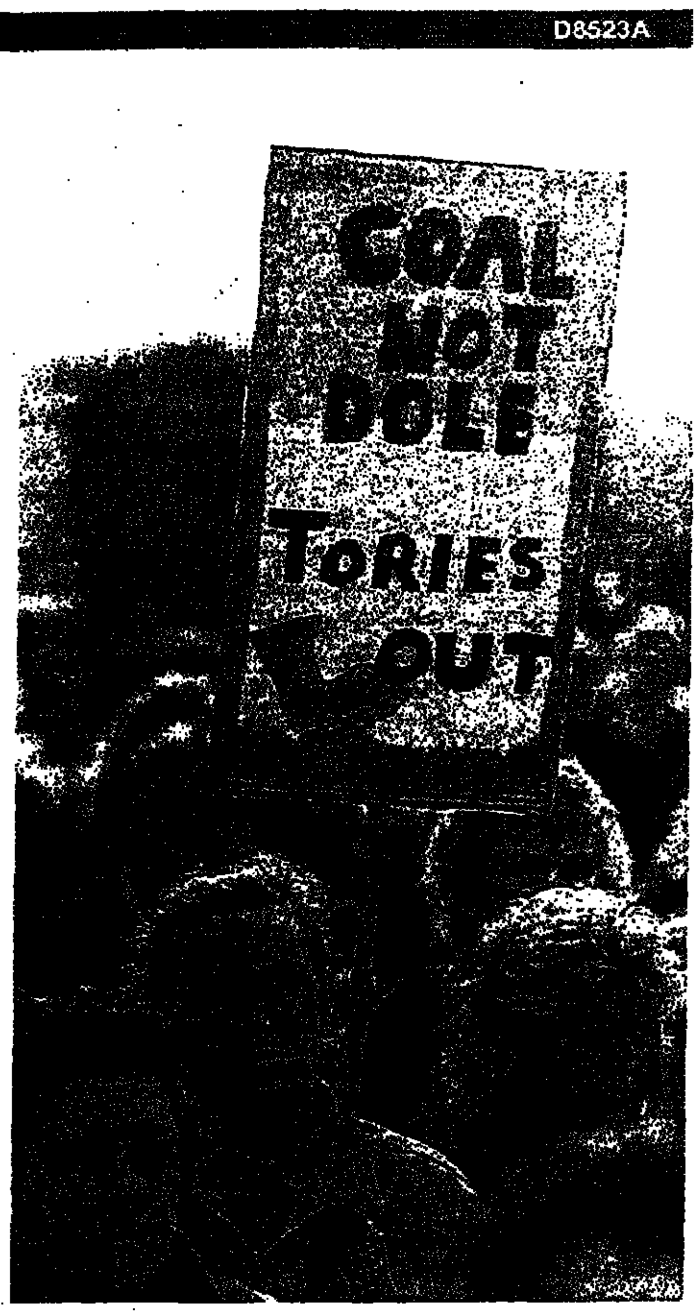
Accepting that he might have to resign if the government loses Wednesday's vote, Mr Heseltine said he took full responsibility for the difficulties the government faced over coal mining.

But he said that once MPs heard his statement, a defeat would be averted: "I think backbenchers will see that the government is taking very considerable notice of what people are saying and has presented a range of proposals which meet the enormity of the difficulties we face."

Mr John Watts, Tory chairman of the Treasury select committee, said the plan had been "crassly" handled. "At the moment I would find it very difficult to vote with the government."

Surveys by Sunday newspapers found more Tory MPs opposed to the pit closures plan than in support. Mr Douglas Hurd, foreign secretary, said Mr Major had demonstrated the "leadership" demanded by his critics in taking a harsh but necessary decision.

Mr Hurd said the announcement had been preceded by a detailed analysis of the prospects for the energy market over the next 15-20 years.



Miners' wives in Mansfield in the UK Midlands protest against the threat of unemployment facing their husbands

Clinton seeks ways to speed plans for stimulating growth

By George Graham in Washington

GOVERNOR Bill Clinton, the frontrunner in the US presidential election, is considering ways of speeding up implementation of his plans to stimulate growth after mounting evidence that the economic slowdown is set to continue.

Mr Clinton said he had been worried by a speech delivered in Tokyo last week by Mr Alan Greenspan, chairman of the Federal Reserve Board, which warned that the US faced an economic downturn of a kind not seen since 1945, and which might prove more protracted than previous recessions this century.

"I think it's something we need to look at – getting people to work again, getting incomes up ... there's some other things we might be able to do to bump this economy some," Mr Clinton said. The Democratic candidate's economic advisers, however, were at pains over the weekend to underline their commitment to keeping to a target of cutting the federal budget deficit in half over four years.

A report in the Los Angeles Times that Mr Clinton was considering a new stimulus package provoked anxiety in the financial markets, which are already worried about the prospects for bringing the budget deficit under control. Long bond prices fell sharply on Friday.

Mr Gene Sperling, the campaign's economic policy director, dismissed the report and said Mr Clinton had not asked for an accelerated recovery programme.

Campaign in Michigan .Page 2
No Teflon for Bush .....Page 16
Michael Prowse .....Back Page, Sect II

He added that there was "no consensus on any specific plan" among the governor's advisers.

Other advisers, however, said they were considering ways to "front-load" the $20bn a year of infrastructure investment that Mr Clinton has already proposed, without actually increasing spending over a longer period.

Democratic campaign managers are concerned that talk of a new growth package might open Mr Clinton to renewed attacks from President George Bush, who has already tried to paint his opponent as a "tax-and-spend liberal."

They want to avoid anything in the last two weeks of the campaign that could shake Mr Clinton's commanding lead in both national and state-by-state opinion polls.

Any new stimulus package that seems likely to increase the already yawning deficit would also draw unfavourable comparisons with Mr Ross Perot, the independent candidate who has built a following by proposing harsh medicine to deal with the national debt.

In half-hour television advertisements this weekend, Mr Perot added flesh to his economic proposals, sketching a five-year plan to eliminate the deficit.

The plan includes $315bn of discretionary government spending cuts over the five years, and savings of $268bn on entitlement programmes from measures such as higher premiums for Medicare, the US health insurance for people 65 and over.

Mr Perot also wants $342bn of tax increases, mostly derived from the proposal he has already outlined for increasing the petrol tax by 10 cents a year over five years.

Riot police deployed in Cairo

By Tony Walker in Cairo

RIOT POLICE were deployed in force near main government buildings and embassies in Cairo yesterday following a night of disturbances in the city's inner suburbs.

The protests, fuelled by frustration among thousands of homeless people over perceived slow official reaction to last week's earthquake, carried ominous overtones for the government, which has been under increasing pressure from Islamic extremists.

Police sealed a main thoroughfare through the slum suburb of Boulaq and fired teargas at stone-throwing youths. A bridge across the Nile was partially closed to prevent protesters crossing into the Zamalek area where many senior officials live.

Most worrying for the authorities were the angry chants directed against President Hosni Mubarak as well as the conspicuous role of various Islamic groups.

Hundreds demonstrated on Saturday, near the Shura Council, the upper house of the parliament. "Mubarak, you have to collect your shame and get your children off the streets," people shouted. "Where have you been Mubarak – you went asking for aid and came back to us with a few bars of soap." Mr Mubarak, who cut short a visit to China to oversee the relief effort, defended his government at a press conference on Saturday.

"I think the government since this problem started has done its maximum," he said. But conceded there had been shortcomings in providing assistance.

"The lesson for the Egyptians and the government and all the authorities in this country is just to try to educate the people how to react whenever there is any emergency," he said.

Continued on Page 18

Iraq sought arms link with BNL in Italy '10 years ago'

By Alan Friedman in New York and Robert Graham in Rome

AIDES to Iraq's President Saddam Hussein first approached Banca Nazionale del Lavoro in Italy seeking help to finance arms procurement as early as a decade ago, according to a highly placed US intelligence official.

Until now, the only role BNL is known to have played in helping Baghdad to fund its military build-up was by way of $5bn of illegal Iraqi loans extended by the bank's *Atlanta branch* between 1985 and 1989.

A confidential 1991 cable sent from US officials in Rome to the Washington headquarters of the Defence Intelligence Agency, reported that a BNL branch in the northern Italian city of Brescia was used by Iraq to pay for the shipment to Iraq of 9m land mines worth $225m. A copy of the DIA report has been obtained by the Financial Times.

In Rome, a senior BNL executive said on Friday that a review of the bank's archives revealed that between 1981 and 1984 Baghdad asked BNL to open three letters of credit totalling $155.3m at the BNL Brescia branch.

However, he added that these letters were never confirmed and therefore were never used by Iraq.

BNL's top management was changed in 1989 in the wake of the Atlanta scandal.

The BNL letters of credit were understood to be in favour of Valsella Meccanotecnica, which is 50 per cent owned by the Fiat group.

Last year several executives of Valsella were convicted and sentenced to jail for illegally selling anti-personnel and anti-tank mines to Iraq during the 1980s.

The Valsella executives were then pardoned as part of an Italian amnesty.

The disclosure that Iraq tried to use BNL in Italy for arms purchases a full four years before the illegal Atlanta loans began to

Continued on Page 18

Austria Sch30	Greece Dr250	Lux LFr60	Qatar QR12.00
Bahrain Din1.250	Hungary Ft192	Malta Lm0.30	S.Arabia SR11
Belgium BFr60	Iceland IKr180	Morocco MDh13	Singapore S$4.10
Bulgaria Lv25	India Rs20	Neth Fl 3.50	Spain Pts200
Cyprus C£1.00	Indonesia Rp3500	Nigeria Naira20	Sweden SKr14
Czech Kcs35	Israel Shk5.50	Norway NKr15.00	Switz SFr3.00
Denmark DKr14	Italy L2500	Oman OR1.50	Syria SyP50.00
Egypt E£4.50	Jordan JD1.50	Pakistan Rs35	Thailand Bht50
Finland FM12	Korea Won 2500	Philippines Pso45	Tunisia Din1.250
France FFr8.50	Kuwait Fils 600	Poland Zl 22,000	Turkey L6000
Germany DM3.30	Lebanon US$1.25	Portugal Es180	UAE Dh10.00

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US and EC confident on farm reform

By Bernard Simon in Cambridge, Ontario

THE US and EC have expressed confidence that substantial progress will be made in a matter of days towards resolving the impasse on agricultural trade which is holding up the Uruguay Round of multilateral trade talks.

Mr Frans Andriessen, the EC's Commissioner for External Relations, cautioned after a weekend meeting with trade ministers of the US, Japan and Canada, that the breakthrough would not amount to a "deal" on the remaining issues of farm subsidies and oilseeds output.

But he said negotiators should have made sufficient progress for multilateral talks to be resumed in Geneva.

The four ministers, who attended the meeting at a country inn 100km west of Toronto, reaffirmed their determination to conclude the Uruguay Round by the end of this year.

Mr Andriessen said his confidence was based on "a determination to bring things to a good end" and on progress made so far.

"We are in continuous contact at different levels and in different sectors," he said.

However Mrs Carla Hills, US trade representative, said that no meeting had yet been scheduled between Mr Ed Madigan, US agriculture secretary, and Mr Ray MacSharry, the EC's farm commissioner.

Agricultural subsidies are one of the stumbling blocks in the six-year old Uruguay Round in the General Agreement of Tariffs and Trade (Gatt) talks, which were supposed to be finalised two years ago.

European Community leaders met on Friday in Birmingham, in the UK, and said they had made progress on several key issues in the Gatt talks. The EC leaders said they aimed to seal an agreement with the US on the Uruguay Round by January 1993.

Mrs Hills confirmed that several non-agricultural issues, including telecommunications and trade in some other services, remained outstanding between the US and EC.

Mrs Hills was guarded in reaffirming recent threats by Washington that it would retaliate against the EC if a deal on the outstanding farm issues was not reached soon. "We are weighing our future steps very carefully," Mrs Hills said.

Cheney pleads for Nato

THE US and its Nato partners must not let the struggling Atlantic military alliance die in their preoccupation with post-cold war domestic problems, Mr Dick Cheney, US defence secretary, said yesterday, Reuter reports from Gleneagles, Scotland.

"We can't let that atrophy," he said on his flight from Washington for a two-day Nuclear Planning Group (NPG) meeting of Nato defence ministers beginning tomorrow.

Mr Cheney said he was not surprised by shrinking allied military budgets and Western Europe's bitter fight over new economic and political unity.

But east Europe and the former Soviet Union were rife with violent political unrest. "It is incumbent on us to remind the voters and one another we should not ignore the long-term importance of the alliance and of a set of meaningful relationships. By meaningful, I mean US and alliance forces committed to an integrated command, prepared when necessary to use that force to promote our interests."

Republicans feel wind of change in Michigan

Clinton poised to win pivotal state, writes George Graham

"DON'T let the polls get you down," is Governor John Engler's message to his fellow Republicans in President George Bush's Michigan campaign team. Mr Engler and his campaign workers know what it is like to pull off an election upset: he trailed his Democratic opponent, incumbent Governor James Blanchard, by 14 points just two days before balloting for Michigan's governorship in 1990.

"We easily could see something of that magnitude again," he said yesterday. But as Michigan chairman of the Bush re-election campaign, Mr Engler may face an even more daunting task of resurrection.

While Michigan has often voted Democratic in state and congressional elections, it has not favoured a Democratic presidential candidate since Hubert Humphrey in 1968.

This year that might change: polls in the state show Governor Bill Clinton, the Democratic nominee, leading Mr Bush by anywhere from 13 to 19 percentage points, with about 10 per cent backing the independent, Mr Ross Perot.

Ms Colleen Pero, an Engler aide seconded to run the Bush campaign in Michigan, warns that polls conducted by organisations from outside the state systematically over-sample areas with low voter turnout.

All the same, Republicans admit their internal polling shows the president 9 or 10 points behind Mr Clinton.

They also acknowledge it is hard to envisage a scenario in which Mr Bush wins re-election without winning this pivotal mid-western state's 18 electoral college votes.

There is nothing very special about the issues that are swaying Michigan voters in this election. "It's jobs, jobs and more jobs; the economy, jobs and taxes over and over again," says Ms Pero.

"I don't think Michigan is significantly different from the nation as a whole. In fact I think it is a very good reflector," says Professor David Rohde, a political scientist at Michigan State University in East Lansing.

While Michigan has not suffered the same sharp economic downturn during the Bush presidency as, say, California, it has been familiar for years with lay-offs and plant closures – the latest being General Motors' Willow Run assembly line. Unemployment, at 9.4 per cent in July, remains significantly higher than the national average.

Some of the issues that Mr Bush has emphasised cut both ways in Michigan. The recently concluded North American Free Trade Agreement, for example, worries car industry and other unionised workers in the Detroit area. But Nafta is viewed more positively in the furniture industry around Grand Rapids, which exports heavily to Mexico, as well as in Sault Sainte Marie in Michigan's icy Upper Peninsula, which is growing fast on the strength of open trade with its sister city in Ontario.

Bush campaign officials hope some of the local referendum issues which will share the ballot on November 3 could draw out voters more favourable to the president. These measures include proposals to cut property taxes, to limit the number of terms that could be served by elected officials, and to roll back car insurance rates in exchange for a cap on accident medical benefit payments.

They are also optimistic about Republican chances in Michigan's congressional elections. The state's population stagnated in the 1980s and, in consequence, it lost two seats in the 10-yearly redistribution of seats that takes effect this year.

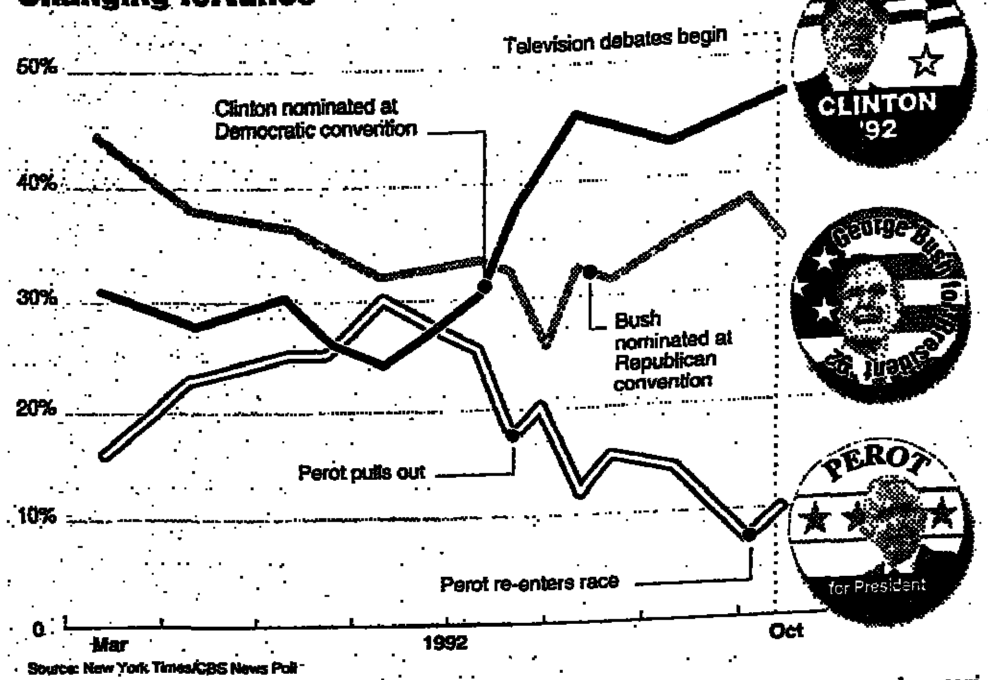
The result has been to add Republican voters to the districts of several Democratic congressmen. State Republican campaigners believe they have good chances of ousting such incumbents as Congressmen Bob Carr, William Ford and perhaps even David Bonior, the House majority whip.

Some even suggest that the prospect of victory in these congressional races could stimulate Republican voters and help Mr Bush. Certainly, few expect the traditional "coat-tails" effect where the president helps his party's candidates lower down the ticket.

"This is, has been and will remain an 'against' election, and not a 'for' election," says Prof Rohde.

But former Governor Blanchard, who is heading Mr Clinton's Michigan campaign, knows from personal experience not to underestimate the electoral skills of his old nemesis, Mr Engler.

In particular, Mr Blanchard must avoid the low turnout which cost him the 1990 governor's election. That will require "get out the vote" activities in heavily Democratic Detroit city, but also among the "Reagan Democrats" of Detroit's blue collar suburbs.



Source: New York Times/CBS News Poll

Second wind for Brazil's Workers party

By Christina Lamb in Rio de Janeiro

OF ALL the banners in Brazil's multi-party demonstrations for the impeachment of President Fernando Collor, the most visible was the red flag. The radical Workers party (PT) has since collected its reward, emerging from this month's municipal elections as the clear beneficiary of the impeachment campaign.

Moribund since narrowly losing the presidential elections in 1989 and floundering in its search for a post-cold war popular platform, the PT was sparked into action by corruption charges against Mr Collor. Under the new banner of "Ethics in Politics" it was at the forefront of protests and its members the most vocal in the congressional inquiry into government corruption.

Its actions paid off. In the first round of voting in municipal elections the PT won one state capital straight off and goes on to the November run-off in five others including four of the country's most important cities: São Paulo, Rio de Janeiro, Belo Horizonte and Porto Alegre. Rio was the biggest surprise: Ms Benedita da Silva, the PT's black, female candidate, topped the poll – the first time the party has ever broken into the city.

Mr Luis Inácio da Silva ("Lula"), the party's founder and leader, now seems certain to be a hot contender in the 1994 presidential elections (or parliamentary if the political system is changed in next year's referendum). Mr Carlos Langoni, an economics professor at the Getulio Vargas Foundation, says: "The PT were the real winners of impeachment."

It is a radical reversal from a few months ago. Demoralised by coming so close to the presidency and then losing, and by the collapse of socialism in eastern Europe, Lula, a former union leader from São Paulo, had practically dropped out of politics for most of the Collor era. In the 1990 congressional elections the party won only 35 seats in the 503-member house.

The popular acceptance of Mr Collor's modernisation programme to open the economy and reduce the role of the state seemed to spell the death knell for the PT, which advocates the opposite. Half-hearted demonstrations with CUT, its union arm, to try to block the first sell-off last year were a failure, and today workers are calling for their companies to be privatised.

In a document last year, Lula admitted the party had lost impetus. Short on funds, it was hit by the exodus from the Catholic Church, with which the party is strongly associated, as well as by the creation of the Forca Sindical, a moderate union which focuses on job security rather than ideology.

Mr Renato Bosch, a political science professor at Rio university, believes the revival demonstrated by the municipal election results is more than a short-term phenomenon. "The party has changed a lot and is strengthening independent of recent events. It has become far more diversified aiming at salaried workers in general, not just blue-collar workers."

Over the last year the PT has been struggling to adjust to the shift in public opinion since 1988, when Brazil's statist, xenophobic constitution was created. It no longer advocates suspension of foreign debt payments or dealings with the IMF and has criticised the Castro regime in Cuba, though it still promotes massive state intervention.

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NEWS: INTERNATIONAL

Waigel welcomes pay restraint offer

By David Goodhart, Labour Editor

MR Theo Waigel, German finance minister, has welcomed the offer from the country's most powerful union to hold back pay rises for five years to no more than is required to maintain purchasing power.

"The longer we have to plan ahead the better for creating jobs and manoeuvring room for investment," Mr Waigel told a Sunday newspaper.

Mr Franz Steinkühler, head of I G Metall, offered the pay pact under a solidarity accord designed to place financing of German unification on a sounder footing. But he insisted that the burdens of reunification should not just fall on wage earners.

Mr Steinkühler has reaffirmed the union's opposition to changing the constitution to make it more difficult to seek asylum in Germany. He said it was possible to prevent the widespread abuse of Germany's liberal asylum laws without changing the constitution.

The German Social Democrats are divided on the issue and I G Metall's support for the status quo could make it even more difficult for SPD leaders to force change on a reluctant rank and file.

But Mr Steinkühler sees his union as an unofficial opposition. "Governments come and go but the unions are always here. Governments, and oppositions, have to run after the opinion polls, but we can help shape opinion," he said in an interview.

He also expressed growing scepticism about the Maastricht treaty. The union supports the treaty, with reservations, but Mr Steinkühler believes it would be unlikely to pass if there was a German referendum. He also said were growing doubts about the need for monetary union, some of which he shared. "I'm not sure if it is a necessary precondition of economic union," he said.

Without a stronger social dimension he believed Maastricht would fail and that the social dimension had been "nothing but promises".

● Mr Waigel says he will leave himself time to find the best way to comply with a court ruling which has ordered the government to increase personal income tax allowances by 1996, Reuter adds from Bonn.

"We have time until January 1996 to find a truly comprehensive and workable solution," Mr Waigel said yesterday.

In a judgment that could force big changes in Germany's tax system, the Constitutional Court in Karlsruhe has ruled that the government had to give higher tax breaks to people on lower incomes.

Theo Waigel

As the ruling made no refund provision, it is unlikely to have an impact on Germany's budget. But the court said that transitional arrangements would have to be made to ease the tax burden on the poor between 1993 and 1996.

W German retail sales fall 5.1%

RETAIL sales in western Germany fell by a real 5.1 per cent in August, the German Federal Statistics Office has announced, writes David Waller in Frankfurt.

The figures, which come shortly after statistics showing that the level of industrial orders fell in August for the sixth consecutive month, provide further evidence of stagnation in the German economy.

The retail figures show that the Bundesbank's high interest rates had begun to affect German consumers even before the economy was hit by the sharp appreciation of the D-Mark recently.

The appreciation has damaged prospects for export-oriented Germany still further, as underscored by Friday's announcement from MAN – one of the largest engineering groups – that orders had dropped by 22 per cent between July and September, against the same period last year.

September's producer prices, by contrast, suggest a slight easing of inflationary pressures. They rose by 0.8 per cent against the same month last year, whereas in July and August prices rose by 1.1 per cent.

A breakdown of the retail sales data showed the worst-hit sectors were food, drink and tobacco (where sales dropped 10 per cent against August last year), and textiles, clothes and shoes (with a 9 per cent fall). There was a 4 per cent real drop in sales of motor vehicles and accessories, and a 6 per cent decline in sales of electronic and musical equipment.

The only improvements came in pharmaceutical goods and cosmetics and stationery and sundry office equipment areas, where real sales rose by 3 and 1 per cent respectively. The figures have been adjusted to reflect the fact that there was one less shopping day in August this year than in August 1991.

In the light of the poor data, economists are modifying estimates for growth in west German GDP; Goldman Sachs, for example, has scaled back its 1993 growth prognosis from 2-2.5 to 0.5 per cent.

E Europe entices the bold

Expansionist western retailers face rough ride, writes John Thornhill

THE EUROPEAN MARKET

FOR western retailers the nascent consumer markets of eastern Europe are tempting the bold and taunting the wary.

The prospect of converting 400m eager consumers into loyal shoppers is encouraging many retailers to invest in the region. But the drawbacks of exposing themselves in countries with low incomes and uncertain prospects are growing more evident by the day as the former Yugoslavia disintegrates further and hyper-inflation stalks the region.

In a report published today the consultants Corporate Intelligence Group attempt to analyse and assess the collective experience of the western retailers who have pioneered investment in eastern Europe.

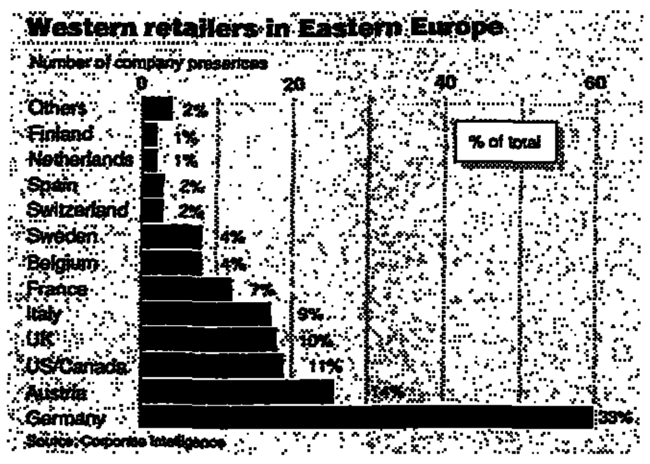
"The lesson is that no one has had an easy ride, and if you are going into the region do not expect one. But the companies we talked to were universally optimistic about the long term," said Mr Clive Grant, one of the report's authors.

About 90 western retailers have invested in eastern Europe, although some ventures amount to little more than attempts to test the water. However, 40 companies have begun trading in more than one country, with the total number of separate retail operations reaching 181.

German companies have been the most active investors, accounting for a third of western retail operations in eastern Europe. Austrian retailers have also moved quickly into the market – often re-establishing trading links with businesses that existed before communism took over.

Following some way behind in investment terms are retailers from the US, Canada, UK, France and Italy.

"It is clear that there is a pull factor operating here," Mr Grant said. "Retailers say they cannot afford not to be there; to wait would be too late. But there is also a push factor in that many western companies are seeking to escape the restraints of saturated home markets."



Retailing investments come in many forms, ranging from joint ventures, to franchising and acquisitions.

One of the most interesting approaches comes from ComputerLand, the Californian-based computer retailer, which has opened 25 franchised outlets in the region, including seven in Russia.

The company found it difficult to find suitable local franchisees and had to call on a Russian emigré already working for ComputerLand in the US to open its first Russian stores. It has also had problems finding suitable sites and has had to open showrooms in a Moscow hotel lobby and on the eighth floor of an office building in Warsaw.

In spite of the obstacles, ComputerLand believes it can entrench itself in the region's rapidly developing computer markets and secure a strong foothold for long-term growth.

Other western companies are trying to implement the same strategy in other retail sectors. For example, the Swedish Ikea group has invested heavily in five furniture stores in Hungary, Poland and Czechoslovakia, while Ahold, the Dutch food retailing group, is developing the Mana supermarket chain in Czechoslovakia where it now has 11 stores.

German retailers such as Tengelmann, Quelle and Otto Versand are also gearing themselves up for significant expansion in eastern Europe.

K-Mart, the US discount retailer, is likely to invest up to $100m over the next three years developing its profile in Czechoslovakia. In May K-Mart bought a 76 per cent stake in the MAJ department store in the heart of Prague and is negotiating to buy another 11 stores.

The CIG report highlights the substantial differences between national markets and suggests that Hungary, Czechoslovakia and Poland offer the most attractive opportunities – in the short term, at least.

The Hungarian retail sector has proved particularly dynamic. Between 1986 and 1991 the number of shops doubled to 112,600, with the private sector's share of retail outlets climbing from 37 per cent to 60 per cent. However, the foreign share of the domestic market is estimated to have grown above 20 per cent – triggering local discontent.

Other challenges confronting western retailers in the region include bureaucratic delays, an unpredictable and rapidly changing legal and commercial framework, cultural and linguistic complications, the pervasive influence of the black market, and difficulties in establishing title to properties.

Although the risks may appear high, CIG says that retailers entering the region initially face lower levels of local competition than they do when moving into markets in more developed countries.

As for the longer term, the report suggests one of the most fascinating features of the eastern European retail scene will be to see how western retailers react as they compete against each other directly for the first time on neutral ground.

Retailing in eastern Europe. Corporate Intelligence Research Publications, 51 Doughty Street, London. WC1N 2LS. £375

EC budget talks reopen

By Andrew Hill in Brussels

EC finance ministers will today reopen detailed discussion of the Community budget, amid growing concern that governments are growing no closer to solving Europe's fundamental economic problems.

The ministers will consider the outcome of last Friday's emergency summit of EC leaders, who avoided in-depth debate on the EC's economic difficulties – the original catalyst for the Birmingham meeting – *in favour of a broad declaration* pledging greater openness and democracy.

On a more optimistic note, British officials hope today's meeting in Luxembourg will produce at least one prize for the UK's troubled presidency of the Community – a formal accord on value added tax (VAT) and excise duties across the EC. By last Friday intensive bilateral discussions between member states had almost eliminated the tiny objections which prevented unanimous agreement on the package in July.

Discussion on the Delors II package of 1993-97 budget measures will revolve around the practical application of the cohesion fund, aimed at bringing poorer member states' economies into line with those of the wealthy EC countries.

Ministers will try to decide how strictly to apply the conditions for cohesion funding, which is available to member states with a per capita gross national product of less than 90 per cent of the Community average – provided they take firm action to improve their economic performance. The Commission, backed by the poorer countries, is suggesting that such conditions should not be applied until three years after the fund is established.

Ministers will also discuss how the funds should be distributed and the sort of projects which might be eligible for funding.

A majority of Danes would vote for the Maastricht treaty in a second referendum if Denmark obtained the supplements to, and exemptions from, the treaty which the government is seeking, writes Hilary Barnes in Copenhagen.

An opinion poll published at the weekend found that 55 per cent would vote for the treaty on these conditions, with 20 per cent against. Fifteen per cent would be undecided and 10 per cent would not vote.

Respondents were asked how they would vote if the other 11 EC governments conceded Danish demands for more democratic decision-making, less bureaucracy, and Danish exemption from participation in a common defence policy and currency.

Warning of coup against Yeltsin

By Leyla Boulton in Moscow

RUSSIAN President Boris Yeltsin's closest liberal colleagues have charged that an alliance of parliamentarians, industrial managers and nostalgic communists are plotting to overthrow his government and derail radical market reforms.

The charges were presented to a group of foreign correspondents by Mr Gennady Burbulis, a top presidential adviser, Mr Mikhail Poltoranin, the first deputy prime minister who heads the Information Ministry, Mr Anatoly Chubais, the first deputy premier responsible for privatisation, and Mr Andrei Kozyrev, the foreign minister.

"We are seeing the ripening of not just serious opposition but of the open and strongest preparation of a coup d'etat," Mr Poltoranin told the correspondents at a meeting initiated by him and his colleagues on Friday evening. He said preparations for what a parliamentary leader described as a "coup by constitutional means" were being made under the aegis of Mr Ruslan Khasbulatov, the chairman of the Russian parliament.

Although coup warnings are not new to Moscow, this one was notable for the seniority and number of ministers who made it, as well as for its specificity. A senior parliamentarian who declined to be identified said the plotters aimed to achieve their ends by constitutional means at a session of Russia's supreme legislative body, the Congress of People's Deputies, which is set for December 1 but which Mr Yeltsin wants postponed until next spring.

Mr Burbulis said the co-ordinated interaction of forces which opposed radical reforms was orchestrated from the Russian parliament building and involved extreme communist groups such as Edinstvo (Unity), as well as the support of conservative industrial managers and deputies.

He also alleged the involvement of the Civic Union opposition group, headed by Mr Arkady Volsky, the leader of an industrialists' union, and Vice-President Alexander Rutskoi, and attempts by extreme communist organisations to provoke violence at demonstrations.

Mr Poltoranin said Mr Khasbulatov had sanctioned the creation of shadowy armed groups, the holding of press conferences on parliamentary premises by former Soviet deputies who want a return to communism, and the establishment in parliament of an organising committee for salvation committees.

Mr Chubais, not as prone to explosive statements as Mr Poltoranin or Mr Burbulis, said the timing set by parliamentarians for the congress was not accidental, as it was designed to stop a mass privatisation of industrial enterprises due to kick off in January.

Radical communists as well as figures of the Civic Union have also sometimes corroborated such fears with shadowy warnings of a change of government.

Russia needs $500m to train accountants

THE RUSSIAN parliament is expected to apply for up to $500m (£290m) in foreign aid to help train millions of accountants over the next few years, Andrew Jack writes.

Mr Anatoly Sheremet, head of accounting at Moscow State University and an influential figure in the emerging accountancy profession, said he met officials from the World Bank last week to discuss loans for training proposals.

He thought it likely that the Russian parliament would apply to the World Bank and the International Monetary Fund over the next few months. He estimated that $500m would be required to cover the costs of training teachers, translating and publishing textbooks and buying computers.

Mr Sheremet, who was visiting the US to attend the World Congress of Accountants last week, said: "I told the World Bank: Without accountants there will be no market economy."

The Association of Accountants of the Commonwealth of Independent States, which he heads, has estimated a need for more than 2m new accountants in the next three to four years, including 100,000 with skills equivalent to chartered accountants.

Serbs open fire as relief route to Sarajevo reopens

By Laura Silber in Belgrade

SERBIAN tanks yesterday fired shells on Sarajevo just after the relief supply route to the besieged Bosnian capital was reopened.

City hospitals said scores of people were wounded in the artillery and tank attack yesterday morning. The number of deaths could not be confirmed in the attack, the worst in more than 20 days.

Hundreds of tonnes of food and medicine yesterday were a waiting delivery to Sarajevo after a four-day dispute between Bosnian and United Nations commanders over control of the road from the airport to the city was ended.

Citing a planned Serbian advance, Bosnian forces on Thursday had blocked the road, used to bring international aid from the airport to the 380,000 inhabitants trapped by a Serbian siege for nearly seven months. Commanders yesterday said they were lifting their blockade out of concern for the people of Sarajevo, whose lives depended on the vital supply route. The city for weeks has been without electricity and water.

While the airport road was reopened, United Nations officials yesterday said the shipment of aid along the overland route from Mostar, southern Bosnia-Hercegovina, at the weekend was suspended after two convoys of the UN High Commissioner for Refugees were shelled. In addition to food and medicines, relief workers plan to distribute plastic sheeting for roofs and windows to protect hundreds of thousands of people from dying of exposure or starvation this winter.

Mr Dobrica Cosic, the president of Yugoslavia, yesterday appealed for the Serbian siege round Sarajevo to be lifted and for the demilitarisation of the city. Before flying from Belgrade to Geneva for international talks with Croatian and Bosnian leaders, Mr Cosic said: "It is not to fulfil international demands and get the sanctions lifted but because of a moral and humane need to end the suffering."

The Yugoslav president, a well-known writer who over the past decades has wielded great influence in Serbian politics, called on Friday for the resignation of Mr Slobodan Milosevic, the president of Serbia. Mr Milosevic is seen by the international community as the chief instigator of the violence in Bosnia.

President Cosic also called for the urgent disbanding of paramilitary groups which cross over the border into Bosnia. Mr Milosevic has repeatedly denied that paramilitary groups from Serbia are fighting in Bosnia. UN sanctions in May were imposed on Yugoslavia for its role in the war in Bosnia.

Civilians run for shelter as Sarajevo is shelled yesterday

Rise in German demand boosts new car sales

By Kevin Done, Motor Industry Correspondent

NEW car sales in west Europe rose by an estimated 4.7 per cent in September, the strongest monthly year-on-year increase this year, thanks to a rise in demand in Germany and smaller European markets.

According to industry estimates, new car sales in west Europe last month rose to 942,000, from 899,000 in the same month a year ago. The rise in demand in September, which followed a 3 per cent increase year-on-year in August, has begun to compensate for the weakness in sales earlier this year.

However, new car sales of 10.5m in the first nine months of the year were still 1.5 per cent below the 10.7m achieved in the same period a year ago. Last month's improvement was widely spread, with higher sales in 11 of 17 markets across Europe.

Significantly, new car sales in Germany rose last month by an estimated 18.5 per cent to 277,000 from the low level of last year, when demand dropped sharply.

In the first nine months of the year, new car sales in Germany were an estimated 9.3 per cent lower than a year ago. European car makers expected demand in Germany to fall more sharply this year after the record sales of 1991, when unification boosted sales to a record 4.2m from only 3.3m a year earlier.

In September, new car sales in France rose by 3.8 per cent to 147,400 but demand remained weak in the UK, with a 4 per cent fall from an already very depressed level. Sales in Italy, previously one of the strongest markets in Europe, also declined by 3.7 per cent year-on-year. Most of the smaller European markets performed more strongly in September and lower sales were recorded only in Sweden, Switzerland, Belgium and Luxembourg in addition to Italy and the UK.

Among the big six volume car makers, the Volkswagen group of Germany and Renault of France posted the strongest growth in west Europe this year. The state-owned French car maker increased its sales volume by an estimated 5 per cent in the first nine months.

The VW group, which includes Audi, Seat and Skoda, has built a record lead in west Europe this year, helped by the waning challenge from the Fiat group of Italy. Fiat, which includes Lancia and Alfa Romeo, has slipped from second to fourth place in the first nine months behind General Motors (Opel/Vauxhall and Saab) and the Peugeot group of France, which includes Citroen.

Fiat has suffered a 7.4 per cent drop in its sales volume, which has depressed its west European market share to only 12 per cent in the first nine months from 12.8 per cent a year ago.

Ford is the other big loser in west Europe this year. A 6 per cent drop in sales volume has forced it to impose short-time working at many European car assembly plants. The share of Japanese car makers in west Europe has also declined this year, with sales falling by 7.6 per cent in the first 9 months. This has depressed their market share to 11.9 per cent from 12.7 per cent a year ago.

Among the executive and luxury car makers, Mercedes-Benz has continued to lose ground to BMW and Audi, its arch rivals. Mercedes-Benz, which is due to replace its smallest 190 series early next year, has suffered an estimated 11.2 per cent drop in sales volume this year and has slipped behind both BMW and Audi in market share. BMW has increased its sales by 9.4 per cent, helped by the success of its 3-series, while Audi has increased its sales by around 8.5 per cent.

WEST EUROPEAN NEW CAR REGISTRATIONS
January-September 1992

	Volume (Units)	Volume Change(%)	Share (%) Jan-Sept 92	Share (%) Jan-Sept 91
TOTAL MARKET	10,501,000	−1.5	100.0	100.0
MANUFACTURERS:				
Volkswagen*(incl. Audi,SEAT&Skoda)	1,825,000	+4.8	17.4	16.3
General Motors (Opel/Vauxhall, US# & Saab)	1,294,000	−1.2	12.3	12.3
− Opel/Vauxhall	1,238,000	−0.8	11.8	11.7
− Saab**	40,000	+0.2	0.4	0.4
Peugeot (incl. Citroen)	1,265,000	+2.3	12.0	11.6
Fiat (incl.Lancia, Alfa Romeo,Ferrari Innocenti,Maserati)	1,260,000	−7.4	12.0	12.8
Ford (Europe, US# & Jaguar)	1,214,000	−6.0	11.6	12.1
− Ford Europe	1,203,000	−5.9	11.5	12.0
− Jaguar	9,000	−14.4	0.1	0.1
Renault††	1,098,000	+5.0	10.5	9.8
BMW	348,000	+9.4	3.3	3.0
Nissan	340,000	−6.0	3.2	3.4
Mercedes-Benz	321,000	−11.2	3.1	3.4
Toyota	258,000	−11.7	2.5	2.7
Rover†	248,000	−12.5	2.4	2.7
Mazda	215,000	−9.0	2.1	2.2
Volvo††	158,000	+2.0	1.5	1.5
Honda†	141,000	+2.1	1.3	1.3
Mitsubishi	128,000	−19.4	1.2	1.5
Total Japanese	1,254,000	−7.6	11.9	12.7
MARKETS:				
Germany	3,047,000	−9.3	29.0	31.5
Italy	1,876,000	+3.9	17.9	16.9
France	1,515,000	+0.5	14.4	14.1
United Kingdom	1,297,000	−2.6	12.4	12.5
Spain	758,000	+13.3	7.2	6.3

#Cars imported from US and sold in western Europe.
*VW holds 31 per cent and management control of Skoda.
**GM holds 50 per cent and management control of Saab Automobile.
†Honda holds a 20 per cent stake in Rover vehicle operations.
††Renault and Volvo are linked through minority cross-shareholdings.
Source: industry estimates

Japan close to foreign policy reform

By Charles Leadbeater in Tokyo

JAPAN'S foreign ministry is finalising details for overhauling its foreign policy-making to allow a swifter response to crises and to introduce a more strategic approach to foreign policy.

The ministry expects that by the end of the year it will complete plans to create a policy co-ordination bureau which could become the most powerful centre for foreign policy-making in Japan as the country seeks a wider political role to match its international economic power.

Traditionally, Japanese foreign policy has closely followed that of the US.

The bureau, which will start work next summer, is likely to be headed by a senior deputy vice-minister.

It is thought the bureau's head would automatically become a leading candidate to become the next vice-minister, the most powerful official at the ministry.

Officials at the Foreign Ministry acknowledge that Japan's foreign policy has often been too reactive on broad issues and yet too slow-moving in crises because of the time it takes to establish a policy consensus.

This is partly because the ministry has lacked an effective mechanism to co-ordinate its own often competing and conflicting bureaux which are housed in cramped offices along the labyrinthine corridors of the ministry's building near the Imperial Palace in Tokyo.

This weakness was particularly exposed during the fast-moving events which led up to the Gulf war, when Japan found it difficult to respond quickly to allied calls for greater contributions to the allied military effort.

A senior US diplomat closely involved with those efforts explained: "There were people whose apparent job was to co-ordinate Japanese policy but it was difficult to find someone who was doing it effectively."

The foreign minister's secretariat, which is nominally responsible for policy co-ordination, is mainly involved in the routine administration of finances, personnel, upkeep of embassies and despatching telexes.

Rebellion in S Korea's ruling party falters

By John Burton in Seoul

A REBELLION in South Korea's ruling Democratic Liberal party (DLP) appears to be faltering after a key political figure refused to support party dissidents.

Mr Park Tae-joon, the former head of the DLP's main faction, said at the weekend he would not join a new conservative political party being formed by the DLP rebels.

Mr Park ignited the DLP's internal crisis a week ago when he resigned as the party's co-chairman.

His resignation reflected growing dissatisfaction among the main faction supporters of President Roh Tae-woo about Mr Kim Young-sam, the party's new leader and candidate in the December presidential election.

Mr Park's departure from the DLP precipitated the resignation of two dozen other senior party officials and MPs. They said they would form a new party to oppose Mr Kim, who is now the leading candidate in the presidential election.

Jewish settlers yesterday demonstrate their outrage at Saturday's West Bank car-bombing in which an Israeli was killed and nine others injured. The settlers burned tyres, waved Israeli flags and engaged in stone-throwing fights with Palestinians

Kuwait family holds on to power

By Mark Nicholson, Middle East Correspondent

KUWAIT'S opposition politicians yesterday welcomed the appointment of six deputies to the cabinet, but complained that the ruling al-Sabah family had kept its grip on the most powerful ministries.

An unprecedented six deputies from the new 50-seat National Assembly were awarded seats in the 16-member cabinet, most notably Mr Ali al-Baghli, a Shia-backed independent candidate during the recent elections, who replaces Mr Homoud al-Rqobah as oil minister.

The ministries of Labour and Social Affairs, Islamic Affairs, Commerce and Industry, Justice and Education also went to deputies who ran broadly anti-government campaigns during Kuwait's October 5 poll. Opposition candidates won more than 30 of the 50 seats.

However, members of the al-Sabah family keep hold of the interior, Foreign Affairs, Defence and Information ministries in the cabinet, which was named on Saturday.

Sheikh Ahmed al-Hamoud al-Sabah remains as interior minister, while Sheikh Ali al-Sabah also stays on as minister of defence. Sheikh Sabah al-Ahmed, brother of Sheik Jaber al-Sabah, the emir, resumes the role of foreign minister he held before the Iraqi invasion of Kuwait in August 1990, while Sheikh Saud al-Sabah, former ambassador to the US, becomes information minister.

Opposition politicians gave the new cabinet a cautious welcome. However, Mr Ahmed al-Dayneen, a member of the liberal Kuwait Democratic Forum, said: "Key ministries are still in the hands of the ruling family and some who showed inability during the crisis are back."

Labor party steels itself for WA Inc fall-out

On the eve of a report on corruption in Western Australia **Kevin Brown** assesses implications for federal government

AUSTRALIA'S governing Labor party is bracing itself for the release tomorrow of a report into the party's involvement in large-scale corruption in Western Australia (WA).

Dr Carmen Lawrence, the state's embattled Labor premier, commissioned the report nearly two years ago in the face of rising public anger about improper dealings between the state government and local entrepreneurs.

The scandal, known as "WA Inc", centres on the loss of more than A$1bn ($700m) of taxpayers' money in a series of deals with businessmen including Mr Alan Bond, the former chairman of Bond Corporation Holdings, Mr Laurie Connell, head of the collapsed Rothwells merchant bank, and the late Mr Robert Holmes à Court.

The 18-month inquiry has also heard allegations of illegal wire tapping, corrupt land and property dealing, political manipulation of public servants, and the sale of political *favours for campaign donations.*

Most attention is likely to focus on the inquiry's conclusions about the integrity of the leading Labor figures who ran the state, particularly Mr Brian Burke, premier from 1983 to 1988, who was widely regarded at the time as a potential future federal prime minister.

A stream of witnesses told the inquiry extraordinary tales about the Burke government's methods, which were said to have included illicit bank accounts, tampering with government records, and envelopes stuffed with money kept in ministers' offices.

The government, the inquiry was told, was more influenced by the Australian phenomenon of "mateship", or political cronyism, than by policy commitments. Dealing with Labor, one witness said, was like dealing with the Mafia.

The report could prove to be a death blow for Dr Lawrence's government, which has already lost its parliamentary majority.

The loss of power in WA would be a serious psychological blow to Mr Paul Keating's federal Labor government.

But the federal government may also be damaged by allegations that some of the illicit money raised in WA found its way to Canberra to help finance national election campaigns in 1987 and 1990.

Evidence given to the inquiry suggested that Mr Burke raised more than A$6m from a dozen or so business donors over about seven years, not all of which has been accounted for.

Inquiry staff say the report will address the issue of whether the federal party benefited from the WA fund-raising, or whether the money remained in Perth, as the federal party claims.

The conservative opposition parties have attempted to link the federal government to the WA fund-raising by drawing attention to a lunch in Perth at which Mr Bob Hawke, the then prime minister, discussed cam*paign donations with Mr Bond, Mr* Connell and others.

Much has been made, too, of a fishing trip hosted by Mr Connell in which he was joined by Mr Hawke and Senator Graham Richardson, then a senior federal cabinet minister and Labor power broker.

Little hard evidence has emerged to link Canberra to illicit activities, which have been strongly denied by Mr Hawke and other cabinet ministers and Labor officials. However, the opposition will be quick to exploit any suggestion that the federal party's ties to WA were not entirely above board.

The report is expected to recommend sweeping changes to the system of government in WA, mainly to increase parliamentary scrutiny and prevent the appointment of cronies to sensitive public service positions.

The parliamentary system of government, inherited from British colonial rule, is expected to survive. But the inquiry will probably call for a *Freedom of Information Act, protec*tion for public service "whistle-blowers," disclosure of politicians' financial interests, and an anti-corruption commission.

The inquiry may also recommend criminal charges against individuals. Charges have already been brought against Mr Bond, Mr Connell, Mr Burke and several others, including Mr David Parker, the lawyer who preceded Dr Lawrence as premier.

Mr Burke, who became Australian ambassador to Ireland and the Vatican after stepping down as premier, was forced to resign last year, a month after beginning to give evidence to the inquiry. He continues to deny any wrongdoing.

Dr Lawrence, who is not personally embroiled in the scandal, has promised to implement all the inquiry's recommendations in the hope of distancing her administration from its predecessors.

However, the signs are that the report will mark the beginning of the end for the state government, and possibly for the federal government, which must do well in WA to win the next federal election, due by June.

Labor cannot even hope to get all the bad news out of the way in one fell swoop. At least three other inquiries are being held into various aspects of "WA Inc", including one by the Australian Securities Commission, the national corporate watchdog. All are likely to prove equally embarrassing.

Babangida's troubles grow

By Michael Holman

NIGERIA'S military government seemed increasingly beleaguered at the weekend, as growing doubts about transition to civilian rule worsened the country's economic crisis.

President Ibrahim Babangida's decision on Friday to nullify the results of presidential primaries and dissolve the leadership of the two permitted political parties makes the planned January 2, 1993, handover look unrealistic.

The probable delay also means no early end to the drift in economic management creditors and donors hoped a new government would end. The drift has left Nigeria without an IMF agreement for the past year, a precondition to urgently-needed rescheduling of its $30bn (£17.4bn) external debt.

"Without it," *a western banker* said last night, "Nigeria's prospects are grim." Nevertheless, many politicians have backed the move, in some cases because it gives defeated candidates a second chance.

"Babangida's decision is most welcome. What happened [in the primaries] was totally devoid of public morality," Mr Lateef Jakande, a former civilian governor of Lagos and a candidate in the Social Democratic party (SDP), said. A spokesman for Mr Umaru Shinkafi, a front-runner in the National Republican Convention (NRC), was also in favour.

Whether the politicians' reactions reflect the view of the electorate, increasingly cynical about the leadership qualities of both soldiers and civilians, is another matter. "What option do we have but to go along with it?" one Lagos businessman asked last night. "One thing is sure: the government remains unpopular."

But the resilience of Gen Babangida, who seized power in August 1985, should not be underestimated, his critics warn. By restructuring the armed forces and ensuring key units are within reach of the presidential HQ in Abuja, the federal capital, *he has made* himself a formidable adversary for would-be successors.

The president's criticism of the politicians would carry more weight if he presided over a more honest administration. Corruption continues to permeate the government, undermining political and economic reform programmes.

Babangida: economic woes

Gen Babangida has not spelt *out the implications of Friday's* announcement for the timetable of the handover, which envisages a presidential poll on December 5, although stressing he remained pledged to civilian rule. But in a comment some Nigerians have interpreted as a hint that the handover may be delayed, he stressed: "Let me correct one thing. The National Electoral Commission does not determine the lifespan of this administration."

On the economic front, news is bleak. The IMF programme renewed in January 1991 had lapsed by the end of the year. The 1991 budget deficit was 35.5bn naira 12.4 per cent of GDP, against a target of N100m surplus. Continuing fiscal and monetary indiscipline has since prompted a warning from the central bank alarmed at inflation running at 27 per cent and rising. "The mounting inflationary pressures were the result of undesirable macroeconomic trends characterised by excessive monetary expansion, large fiscal deficits and exchange rate depreciation," the bank said last August.

It may well be the president set himself impossible tasks. He took on a political élite which, as the recent presidential primaries showed, continues to buy votes and bribe electoral officers, and underestimated the economic challenge. But for many Nigerians, the man who promised to clean up Nigeria's political system, and launched a structural adjustment programme in 1986, has failed on both counts.

Unita faces partition charge

THE Angolan government yesterday accused the main opposition party Unita of planning to seize the south and partition the country, Reuter reports from Luanda.

Governor Baltasar Manuel, of the southern city of Huambo said Unita was preparing for partition by deploying forces in Huambo and other cities. The government demanded Unita withdraw its forces under international supervision.

Malawi to vote on one-party rule

Malawi President Kamuzu Banda announced yesterday a referendum on whether to end nearly three decades of single-party rule in the troubled south-east African nation, AP reports from Zimbabwe.

Mr Banda said the referendum by secret ballot would be held "as soon as possible". It would give Malawians an opportunity to "choose either the Malawi Congress party or go for multipartyism".

Tax raids add to Bombay stock exchange confusion

By Stefan Wagstyl in New Delhi

CONFUSION reigned in scandal-hit Bombay financial markets over the weekend, following income tax raids on leading stockbrokers. Trading on the Bombay Stock Exchange halted on Friday when 250 tax investigators entered 50 brokers' offices, and it was unclear if it would re-open today.

Bombay stock market officials said the governing body would meet at 10am to decide. The market was due to be closed today for a regular fortnightly settlement day, but in view of Friday's exceptional closure, some officials felt it would be wrong to have trading suspended for four days in succession. Many brokers believe that, if the tax raids continue, trading will be impracticable.

The investigations follow official inquiries into the securities market scandal which erupted in April, causing trading to be suspended for a month. The raids will hit efforts by the government of Mr Narasimha Rao, the prime minister, to encourage foreign investment in India's financial markets.

Rao: investment hopes hit

Tax officials have not publicly explained the raids, but their targets included several brokers alleged to have been implicated in the securities market scandal and one leading Bombay financier. The searches were launched on settlement day, when brokers' offices are full of share documents.

Mr M.R. Mayya, the Bombay Stock Exchange's executive director, said *trading* would probably not resume today.

The raids could undermine investors' confidence for some time. Share prices have been falling steadily as the investigation has dragged on and confidence has waned in the government's ability to carry out promised *economic reforms*. The Bombay stock market index of leading shares stood at 3,066.45 at Thursday's close, against 3,300 in mid-September.

The scandal's political impact could widen amid opposition calls for the resignation of Mr B. Shankaranand, oil and gas minister, who is also chairman of the Oil Industry Development Board (OIDB), a state-owned corporation. According to evidence to a parliamentary committee, the OIDB placed money with banks for investment in the securities markets, in defiance of a government ban on state-owned corporations doing so.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

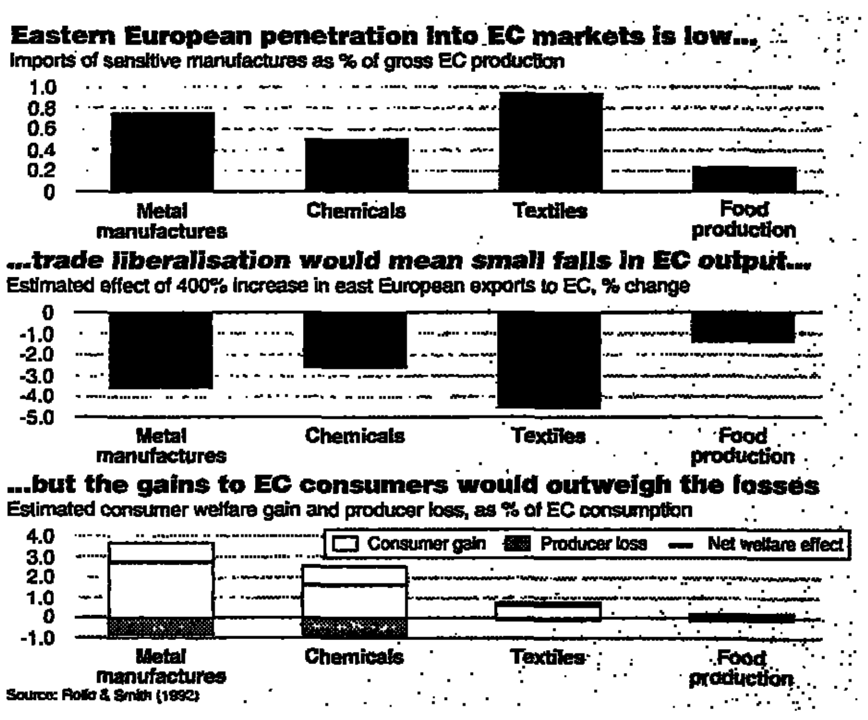
Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

	UNITED STATES Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	JAPAN Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	279.8	−174.2	−158.7	0.7623	100.0	230.8	76.0	64.5	180.50	100.0
1986	230.9	−140.6	−150.0	0.9836	80.2	211.1	96.2	86.9	165.11	124.4
1987	220.2	−131.8	−141.6	1.1541	70.3	197.3	88.1	75.5	166.58	133.2
1988	272.5	−100.2	−107.0	1.1833	66.0	219.8	80.7	66.6	151.51	147.3
1989	330.2	−99.3	−91.8	1.1017	69.4	245.3	70.5	52.4	151.87	141.9
1990	309.0	−79.3	−70.9	1.2745	65.1	220.0	50.1	28.3	183.94	126.0
1991	340.9	−52.3	−3.0	1.2391	64.5	247.5	83.2	63.0	166.44	137.0
3rd qtr.1991	89.4	−16.0	−9.4	1.1732	66.5	65.8	23.2	16.6	159.94	136.5
4th qtr.1991	87.8	−12.4	−5.8	1.2548	63.3	62.9	23.7	18.2	162.38	141.2
1st qtr.1992	87.3	−11.6	−4.7	1.2623	63.5	65.0	26.1	22.7	162.21	142.2
2nd qtr.1992	86.7	−16.5	−14.0	1.2717	63.6	63.1	25.4	22.6	165.60	139.9
September 1991	29.6	−5.4	n.a.	1.1929	65.3	22.1	7.9	6.4	160.42	136.7
October	30.5	−4.9	n.a.	1.2082	64.6	21.8	8.0	5.6	157.77	142.4
November	29.6	−3.3	n.a.	1.2568	63.2	20.9	7.4	5.9	162.99	140.9
December	27.7	−4.3	n.a.	1.2993	62.0	20.3	8.3	6.8	166.37	140.2
January 1992	27.4	−4.5	n.a.	1.2926	61.9	21.4	8.0	5.4	161.84	143.8
February	29.8	−2.6	n.a.	1.2634	63.4	21.6	9.3	7.6	161.18	143.3
March	30.1	−4.5	n.a.	1.2309	65.1	21.9	8.7	9.6	163.61	139.6
April	29.3	−5.7	n.a.	1.2436	64.8	21.0	7.8	7.5	165.92	138.2
May	28.2	−5.6	n.a.	1.2676	63.8	20.9	9.3	6.6	165.57	139.7
June	29.3	−5.2	n.a.	1.3039	62.3	21.2	8.5	6.5	165.32	141.7
July	27.6	−5.3	n.a.	1.3693	60.5	20.6	8.4	7.0	172.21	139.2
August	25.3	−6.4	n.a.	1.4014	59.8	19.7	7.6	6.1	177.11	137.0

	GERMANY Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	FRANCE Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	242.8	33.3	21.7	2.2260	100.0	133.4	−3.6	−0.2	6.7942	100.0
1986	249.5	53.5	40.3	2.1279	108.8	127.1	0.0	3.0	6.7946	102.8
1987	254.3	56.7	39.8	2.0710	115.3	128.3	−4.6	−3.7	6.9265	103.0
1988	272.6	61.6	42.9	2.0739	114.6	141.9	−3.9	−3.4	7.0354	103.8
1989	310.2	65.6	52.2	2.0681	113.5	162.9	−6.3	−3.8	7.0169	99.8
1990	324.6	51.7	37.0	2.0537	116.5	170.1	−7.2	−7.2	6.9202	104.8
1991	327.3	11.0	−18.1	2.0480	117.7	175.3	−4.3	−4.7	6.9643	102.7
3rd qtr.1991	83.5	2.4	−5.0	2.0480	116.5	44.9	−1.3	−0.7	6.9441	101.8
4th qtr.1991	84.0	5.8	−1.8	2.0382	118.5	45.0	0.4	0.4	6.9698	102.8
1st qtr.1992	83.0	2.7	−4.4	2.0422	118.8	45.4	0.8	−1.1	6.9462	103.4
2nd qtr.1992	80.6	3.4	−4.8	2.0511	118.7	46.2	1.5	0.8	6.9122	104.4
September 1991	27.2	0.2	−0.6	2.0253	117.1	15.1	−0.36	−0.51	6.8935	102.2
October	27.3	1.5	−1.5	2.0417	117.1	15.5	0.68	0.66	6.9609	101.9
November	29.0	1.9	0.9	2.0406	118.6	15.0	−0.00	−0.14	6.9736	102.8
December	27.8	2.4	−1.2	2.0325	119.9	14.3	−0.32	−0.31	6.9451	103.7
January 1992	26.9	−0.4	−3.2	2.0365	119.3	14.9	0.32	−0.11	6.9476	103.6
February	27.7	1.1	−0.9	2.0443	118.6	15.0	0.10	−0.08	6.9572	103.3
March	28.5	2.0	−0.2	2.0456	118.4	15.5	0.23	−0.88	6.9429	103.4
April	29.5	2.5	−0.9	2.0483	118.6	15.8	1.09	0.17	6.9274	103.9
May	26.2	0.2	−1.9	2.0561	118.4	15.0	0.59	1.32	6.9090	104.5
June	24.9	0.6	−1.9	2.0498	119.1	15.4	−0.17	−0.64	6.9001	104.9
July	28.2	0.5	−3.6	2.0410	120.7	15.5	0.88	0.32	6.8872	106.0
August			−1.0	2.0326	122.0	14.2	−0.44		6.8944	106.3

	ITALY Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	UNITED KINGDOM Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	103.7	−16.0	−5.4	1443.0	100.0	132.4	−5.7	4.7	0.5890	100.0
1986	99.4	−2.5	−1.4	1461.6	101.4	108.3	−14.2	0.1	0.6708	91.6
1987	100.7	−7.5	−2.1	1494.3	101.2	112.3	−16.4	−6.4	0.7047	90.1
1988	108.3	−8.9	−6.0	1536.8	97.6	120.9	−32.3	−24.3	0.6643	95.5
1989	127.8	−11.3	−14.0	1509.2	98.6	137.0	−36.7	−32.3	0.6726	92.6
1990	133.6	−9.3	−19.4	1523.2	100.6	142.3	−26.3	−23.8	0.7150	91.3
1991	137.0	−10.5	−28.0	1531.3	98.9	147.8	−14.7	−9.0	0.7002	91.7
3rd qtr.1991	31.9	−1.7	−5.5	1525.4	98.1	37.9	−3.4	−1.9	0.6959	90.7
4th qtr.1991	37.3	−1.2	−9.4	1533.8	98.6	37.1	−3.7	−2.4	0.7069	90.9
1st qtr.1992	34.3	−5.1	−7.6	1535.7	99.0	36.7	−4.3	−4.0	0.7125	90.6
2nd qtr.1992	35.8	−3.6	−11.1	1546.3	98.5	37.9	−4.5	−4.0	0.7034	92.3
September 1991	11.1	−2.0	−2.8	1513.9	98.5	12.3	−1.3	−0.78	0.6924	91.0
October	13.1	−0.9	−2.6	1528.5	98.5	12.3	−1.3	−0.87	0.7014	90.5
November	11.1	−1.6	−2.5	1537.6	98.7	12.3	−1.4	−0.96	0.7076	91.0
December	13.1	1.2	−3.3	1537.4	99.1	12.5	−1.0	−0.59	0.7116	91.2
January 1992	10.7	−2.0	−3.2	1534.9	99.1	11.6	−1.6	−1.54	0.7131	90.8
February	11.4	−1.4	−2.2	1535.6	99.0	12.6	−1.4	−1.34	0.7105	90.9
March	12.1	−1.6	−2.2	1536.7	98.8	12.5	−1.2	−1.17	0.7141	90.1
April	11.7	−1.2	−3.3	1542.0	98.6	12.4	−2.0	−1.80	0.7076	91.4
May	11.5	−1.9	−3.4	1546.6	98.5	13.0	−1.2	−1.06	0.7000	92.8
June	12.7	−0.5	−3.8	1550.3	98.5	12.5	−1.3	−1.19	0.7027	92.9
July	13.9	0.8	−4.4	1546.2	99.5	12.3	−1.6	−1.44	0.7137	92.5
August	7.7	1.1		1543.4	100.1	12.2	−1.6	−1.50	0.7219	92.0

All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.



Source: Rollo & Smith (1992)

Fortress Europe keeps eastern neighbours out

WHILE the European Community fiddles with constitutional definitions, the east European market experiments risk going up in flames. Only increased trade with their rich and populous neighbours offer hope of a prosperous future for the ex-*Comecon countries. But while the EC* mouths words of friendship towards the east, its actions remain unwelcoming.

The EC approach towards eastern Europe has been disingenuous from the outset. The association agreements, signed less than a year ago with Poland, Hungary and Czechoslovakia, appeared to offer the promise of free trade and eventual membership of the Community. But the reality is somewhat different, as Mr Jacques Attali, president of the European Bank for Reconstruction and Development, pointed out last month in a speech calling for the association agreements to be torn up and replaced by agreements offering more generous access to EC markets.

The devil is in the detail. There is no hiding the fact that the Common Agricultural Policy precludes free trade in agricultural products. But the agreements, while reducing tariffs and quotas for non-agricultural exports, left a number of barriers to trade in "import-sensitive" products including iron and steel, chemicals and textiles and apparel. Along with agricul*ture, these sensitive products account for* 33 per cent of Czech and Slovak exports to the EC, 42 per cent of Polish exports, and 51 per cent of Hungarian exports.

Even this modest liberalisation risks being undermined by the provisions covering rules of origin, safeguards and standards, as Mr Patrick Messerlin predicted in a paper cited in this space (*EC Protectionism Threatens East European Growth: FT, 13.4.92*). His fears have already been proved correct, as the FT confirmed in a recent report, (*Czechoslovak Steel Sales to EC Curbed: FT, 19.8.92*). "The European Commission has authorised Germany, France and Italy to restrict some steel imports from Czechoslovakia after they complained about a big rise in cheap shipments," the report said.

Why is the EC unwilling to offer free trade? Maybe these sensitive products are located in especially vulnerable regions within the EC economy. Perhaps east European competition poses a substantial threat which will cause serious adjustment difficulties within EC countries.

The suspicion is that these trade barriers are there because declining industries are able to use their substantial lobbying power in pursuit of their private, rather than the public, interest. That is the implication of preliminary research by Mr Jim Rollo of the Royal Institute of International Affairs and Mr Alasdair Smith of the University of Sussex, the results of which will appear in the next issue of Economic Policy ("*The political economy of central European trade with the European Community: why so sensitive?*").

These sensitive products do constitute a non-negligible share of employment and value-added in EC countries. Excluding food and food products, they account for 5.4 per cent of total EC employment. The share is much higher in exposed regions in France, Germany and southern Italy.

Yet eastern European exports are tiny in relation to the size of the EC market. Imports of sensitive manufactures from eastern Europe are, in all cases, equivalent to less than 1 per cent of total EC gross production, as the upper chart shows. *Even on what the authors describe as the* worst-case scenario for EC producers – a 400 per cent rise in east European exports of sensitive products – the result would be only modest falls in EC production in each sector, ranging from 4.6 per cent in textiles to 1.3 per cent in food products.

Yet trade politics requires vociferous opposition, even though producer losses are small. *Trade liberalisation would* deliver gains to consumers in the form of lower prices which would more than outweigh the producer losses. But allowing consumers to learn they gain from free trade would be dangerous for Europe's producer lobbies. The EC also appears willing to keep consumers in the dark, and east European exports out in the cold.

Edward Balls

Retail sales up slightly says employers' survey

By Bronwen Maddox

RETAIL sales in September were slightly better than a year ago, marking the first increase since May, according to the distributive trades survey published today by the Confederation of British Industry, the employers' organisation.

Sales rose despite high unemployment and debt levels, which have hit consumer confidence and spending power. Retailers, however, fear September's rise will be reversed this month, according to the CBI survey, carried out before the recent announcement of mining redundancies.

Mr Nigel Whittaker, chairman of the CBI distributive trades panel, said the September rise "is clearly good news, but it is difficult for retailers to judge which way things will move in the months ahead".

Government figures for September retail sales, to be published on Wednesday, are expected to confirm the small year-on-year increase. According to MMS International, a financial information company, the median of City expectations is that they will show a 0.7 per cent rise compared to September 1991, but a 0.3 per cent fall on August's level.

According to the CBI report, the September increase was driven by sales of clothing, furniture and confectionery, partly offset by sharp falls in sales by chemists, household goods and off-licences (shops selling alcohol).

Despite the rise, volumes were considered poor for the time of year, and retailers continued to cut stock levels.

● The London economy has deteriorated further, according to the latest Quarterly Economic Trends survey published today by the London Chamber of Commerce and Industry.

Conducted after Black Wednesday, September 16, when the pound left the European exchange rate mechanism, the survey says that "expectations for turnover and profitability for the year ahead are significantly less optimistic than at any time during the past 15 months".

A survey today by 3i, the investment capital group, concludes business confidence has fallen further among small and medium-sized companies, with about a third expecting turnover to fall in the fourth quarter. The same proportion expects to cut investment in the fourth quarter.

Computer groups criticise law

By Alan Cane

A GROUP of the world's leading computer companies has complained to the British government and Brussels that proposed UK legislation designed to outlaw software theft is flawed and has asked for substantial changes.

The group includes International Business Machines, Digital Equipment, the Federation Against Software Theft and the Business Software Alliance (BSA), which represents big computer software companies including Microsoft and Lotus.

They are concerned that a rush to pass the legislation by January 1 will result in a flawed law. They believe it will be difficult to interpret in the courts and leave the UK out of step with software protection being enacted throughout Europe. Copying and counterfeiting of software in the UK is thought to cost the industry more than £300m a year.

The draft legislation is a consequence of a 1991 EC directive. The directive was approved after more than two years of lobbying and debate by computer industry factions concerned with both software protection and the rights of software users and suppliers.

The principal issue was "reverse engineering" – unravelling a piece of software to understand its structure so compatible programs can be constructed. The directive proved a compromise fought "to the last comma", according to the BSA "which gave satisfaction and dissatisfaction in equal measure to all".

Britain's legislators have, however, rewritten the directive. The computer companies have written to the Department of Trade and Industry and to Brussels to complain that the draft "fails to implement aspects of the directive, introduces unnecessary and untested language, proposes additional exceptions to software authors' exclusive rights and omits sections of the directive which the industry considers essential".

The government said the draft had been circulated to seek the views of those likely to be affected and modifications could be made.

In Brussels, officials said the Commission could take action if the UK failed to implement the spirit of the directive. Privately, they confirmed the directive had been drafted so tightly that there was little room to alter the text and retain the sense of the original.

Treasury receipts from tobacco at risk

As much as £2bn of UK tax revenue could be at risk if the EC presses ahead with the single market while adopting current proposals for harmonising cigarette taxes, according to the research group London Economics in a private report.

The study – commissioned by the Tobacco Advisory Council, a lobbying organisation – says proposals accepted in principle by the council of economic and finance ministers "simply fail to address the major issues of harmonising tax-induced price differences across the Community." Incentives for "both legal and illegal cross-border trading" would not be reduced, says the report. The study's conclusions point to potential losses for the Treasury of "anything up to £1bn" from legal cross border trade and "as much again" from illegal bootlegging.

Chemists seek to sell more drugs over counter

By Paul Abrahams

BRITAIN'S chemists have called for the right to add 51 popular drugs to the list of products they can sell over the counter without a doctor's prescription.

The Royal Pharmaceutical Society, which represents and licenses pharmacists, says the drugs – which include Glaxo's Zantac, the world's best-selling drug with annual sales of £1.6bn – had a proven track-record of safety.

Its recommendation follows a meeting last week between the Medicines Control Agency, which licenses drugs in the UK, and industry associations to discuss speeding-up procedures for switching drugs from prescription to over-the-counter (OTC) status.

The drugs include Zantac's rival Tagamet, another anti-ulcer medicine, marketed by SmithKline Beecham.

Other leading products include Wellcome's best-selling herpes treatment Zovirax, which has already received OTC licences in Germany and New Zealand, its antihistamine drug Semprex, Schering-Plough's antihistamine drug Clarityn and SmithKline's antibiotic ointment Bactroban.

Fisons' two asthma treatments, Intal and Tilade, are listed as are Pfizer's arthritis drug Feldane and the US group's anti-fungal treatment Diflucan.

The recommendations come at a time when governments, anxious to contain rising health costs, are increasingly keen to switch from prescription medicines, which they largely pay for, to OTC products paid for by patients.

A number of pharmaceutical groups are teaming up with consumer products companies to help them switch their products.

These include SmithKline Beecham with Marion Merrell Dow of the US; Procter & Gamble, the leading US OTC company, with Syntex of the US; and Johnson & Johnson with Merck, both of the US. Wellcome has said it is looking for a European OTC partner.

Unions rally support for miners

By David Goodhart, Labour Editor

THE Trades Union Congress hopes to keep up the pressure on the government over over the next few days by assembling the broadest possible coalition against the planned UK coal mine closures.

Mr Norman Willis, TUC general secretary, hopes to meet Anglican bishops and several Tory MPs have indicated they will either vote against the government on the issue or abstain.

The TUC has set up a committee to guide the campaign and initiated a fighting fund with a donation of £50,000.

A new issue in the campaign could be the future of British Coal's £1bn-plus pension fund surplus. TUC officials say that they fear the government may try to divert some of the surplus to cover the costs of redundancy payments, which will cost about £750m.

An attempt will also be made today to involve the European Commission when Mr Roger Lyons, chair of the TUC energy committee, meets EC energy officials to discuss whether the UK electricity generators have breached European competition policy.

● The government's claim that keeping open the 31 pits due for closure would cost taxpayers £100m a month is coming under increasing fire from economists and, privately, from British Coal officials.

The figure, used repeatedly by ministers, is based on the assumption that if British Coal can only sell 40m tonnes to the electricity generators next year that will leave 2m tonnes a month – at a production cost of £50 a tonne – unsold.

British Coal officials say the production cost is considerably lower, even at most of the 31 pits earmarked for closure. They also point out that the the £100m figure assumes that the coal could not be sold at all, whereas it could in fact be sold on the world market, albeit at somewhat below its cost of production.

There would still be a monthly cost related to selling the coal but it is very difficult to calculate what it would be. British Coal officials insisted that it would be a great deal less than £100m.

Mining is the forging industry's biggest customer after the automotive sector, buying products such as coal cutters, props and conveyors. Last year it bought 6,337 tonnes of steel forgings or nearly four per cent of total production. This year, deliveries have matched last year's and have become relatively more important. Total production is running at 13 per cent below last year's level, according to Mr David Powis, director general of the British Forging Industry Association.

Britain in brief

Feltrim Names face £6m call to fund action

Lloyd's Names on the loss-making Feltrim syndicates are to be asked to contribute between £5m and £6m to fund legal action aimed at winning compensation. Leaders of the Feltrim Names Association met at the weekend after receiving copies of a damning Lloyd's loss review report on Feltrim last Thursday. The association will on 12 November discuss its plans for legal action with its 1,500 members. Some 2,000 Names – the individuals who back underwriting at the insurance market – face losses of more than £450m.

Maxwell trust

Pressure on the government to rethink how it helps pensioners hurt by the collapse of Maxwell businesses will intensify when parliament returns this week, amid signs that fundraising over the summer has only bought time for ministers. The trust fund, headed by Sir John Cuckney, has raised £5.9m – far short of the tens of millions needed to fill gaps in pension funds robbed by the late Mr Robert Maxwell.

Pay increases

Pay increases rose slightly to an average of 4.5 per cent in the three months to September, up on the 4.3 per cent recorded recorded in the three months to August, according to Bargaining Report produced by the Labour Research Department.

Reuters moves for Visnews

Reuters, the news and information group, is on the verge of taking 100 per cent control of Visnews, the international television news agency. The company, which bought NBC's stake in Visnews in July, is buying the BBC's residual 11 per cent stake.

The purchase, and Reuters' involvement in this week's offer for Independent Television News, are signs of the information group's increasing interest in visual news.

Aid appeal

Tension over next year's public spending allocation will deepen today as 33 Conservative MPs call for the government's overseas aid budget to be protected from Treasury cuts. The MPs have demanded that increases in spending in the UK must "not be at the expense of emergency relief or long-term development for the world's poorest people".

Savings rise

Sales of national savings products recovered last month, following a sharp fall in August. Net receipts amounted to £202m or £314m with accrued interest of £112m taken into account. Total contribution to government coffers for the financial year so far is £2.7bn, including accrued interest of £1bn.

FINANCIAL TIMES SURVEY

ENEL, the state-owned electricity industry, faces a revolution **Page 3**

ITALIAN INDUSTRY

'Bank-bashing' may soon enter the vocabulary of industrialists **Page 4**

Monday October 19 1992

Maastricht treaty conditions require the Italian government to slim down state ownership of industry and improve its competitiveness. But performance will depend on radical moves to reduce the public service deficit. **Robert Graham** reports

The change is positive

ITALIAN industry this autumn confronts an awesome list of turbulent variables, each capable of shattering a crystal ball.

Obvious variables are the inflationary effect of devaluation; high interest rates and squeezed profits; increased taxes, labour unrest; a weak government in a fast changing political environment.

In short, the plight of industry can no longer be isolated from the more general crisis affecting what the press likes to call *Azienda Italia* (Italy Incorporated).

Since the April general elections, a way of life which once seemed immutable is in a state of flux – from the electoral rules, the shape of the political parties, the nature of the welfare state and the role of the public sector right down to public morality.

Painfully, at times chaotically, Italy is pointing towards the creation of new political alignments within a reformed constitution which will tidy up an unworkable system of proportional representation and produce more stable government coalitions. The entire public sector is going to be slimmed down and made more transparent, starting with IRI, the giant holding company.

Irresponsible public spending, which cocooned Italy from the effects of recession elsewhere, has finally been brought face to face with a crude reality: the country cannot afford the old subsidies and welfare state which have been both generous and inefficient. The mountain of debt at over 104 per cent of GDP – the servicing of which accounts for nearly the entire budget deficit — has risen too high.

Nor will the electorate tolerate the incestuous relationship, now being exposed by Milan magistrates, between industrialists and politicians, whereby seemingly every public works contract involves a kick-back paid into party coffers. It is a time of changing habits and policies in the worst possible circumstances: an unstable coalition government catching up on long-delayed political, economic and industrial reform, amid a currency crisis and a recession. But Italy's change of direction is positive and may well be irreversible.

Pressure from European partners in Brussels to kick old habits and meet the demands of convergence are an important factor for change. This "European" pressure also has an unusual domestic twist – the fast-growing power of the populist Lombard League. The latter has broken the hold of the discredited traditional political parties in the north, and is advocating at best a new federalism – or, more disturbingly, a form of northern separatism. The logic of the League is that if Italy as a whole fails to meet EC standards, then the north will turn its back on the centre and south to cut its own deal with the D-mark.

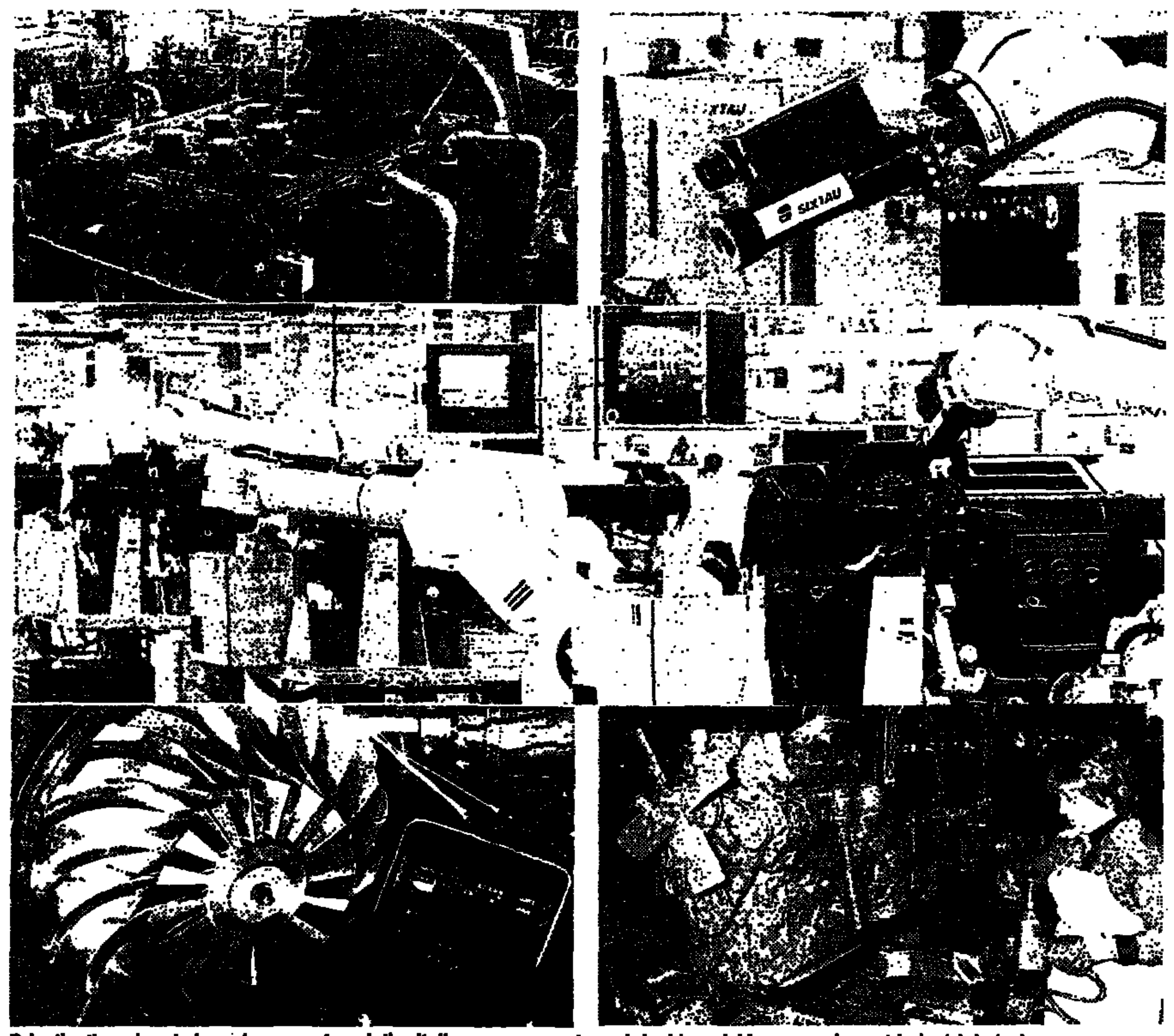
The markets are the other external force imposing change. Lack of confidence in Italy's ability to tackle its uncontrolled public spending and comply with the minimal criteria for convergence made speculation against the lira inevitable. Beginning with the April general elections, speculation culminated in the lira's devaluation on September 14 – in a free float since September 17, having devalued nearly 20 per cent against the D-mark.

Ironically, this nadir of international confidence comes when Italy for the first time has a government committed to attack the budget deficit with structural reform of the principal culprits: pensions, health care, local administration and the civil service.

In its dealings with the bloated state sector, however, the government's touch has not been as firm as is needed. The three and a half month-old Amato government has done itself unnecessary international damage by the clumsy handling of the liquidation of Efim, the loss-making state industrial holding. Creditors were kept in the dark, then told at first that Efim's L3,500bn of foreign debt would be frozen.

Again signals on privatisation have been confused. The government has broken far too ambiguously the psychological barrier of surrendering 51 per cent control, and been slow in showing its hand over what is to be sold. Only two modest sell-offs have been announced: Credito Italiano, the sixth largest commercial bank controlled by IRI, the state holding; and Nuovo Pignone, the turbines and engineering subsidiary of ENI, the state oil concern.

Equally, the first attempt in July to reorganise the public sector by forming two super-holdings had to be quickly dropped. In its place the treasury has now become sole shareholder of the four main public entities. IRI, ENI, ENEL (the electricity authority) and INA (the insurance institute) are now joint stock companies.



Privatisation signals have been confused: the Italian government must decide quickly on a coherent industrial strategy

This initial step has removed IRI and ENI from the direct tutelage of the political parties which formerly treated them as fiefdoms for patronage. A significant opportunity now exists for establishing a coherent industrial strategy, and the government must decide quickly on the shape this will take. The opportunity should come at the end of next month, when IRI and ENI announce their new strategic plans.

The government is understandably torn between realising assets through the easy sale of "jewels," and the longer term creation of units with industrial logic. Here Italy's rigid labour market, which makes shedding manpower both costly and controversial, will be put to the test. Elsewhere in Europe, crisis industries have reacted by shedding labour, while in Italy loss-making operations are sustained as "strategic sectors," largely to avoid job losses in depressed regions with political clout. Aerospace, aluminium, chemicals, defence industries, steel and ship-building are the most glaring examples.

The bottom line will be the need to gain confidence from the markets and raise money from privatisation – even if a strong body of political opinion continues to favour sizeable state control. Market sentiment cannot be lightly ignored these days. The recent decision by IRI to sell off Finsiel, its software subsidiary, to STET, its telecommunications holding, was greeted with a 23 per cent fall in STET shares. The market judged this to be an unnecessary shuffling of assets to boost IRI's balance sheet without entering a broader international alliance.

Confindustria, the industrialists' confederation, recently prepared a paper offering the government guidelines for an industrial strategy with five principal objectives with a view to the private sector playing a more prominent role:

- Increase the average size, productive capacity and capitalisation of companies.
- Broaden and strengthen the technological and innovative base of industry in highly competitive sectors such as textiles, footwear and clothing.
- Equip industry to cope better with environmental considerations.
- Greater internationalisation, with more transitional alliances and overseas production/distribution – Italian industry being the least multi-national of the G-7 countries.
- Better territorial distribution of production.

To these laudable objectives might be added improvement in infrastructure, a more attractive environment for foreign investors and a better developed financial market. For the world's fifth largest industrial economy, Italy attracts remarkably little investment.

Over the past 18 months industry itself has been tackling its cost base, and wages have risen this year at marginally below inflation of 5.2 per cent. Although pay is still above the European average, the recent devaluation should provide a competitive edge.

Many small companies, the life-blood of Italian industry, find themselves in poor shape, caught in a net of costly short term debt, declining domestic demand and fierce international competition. All companies will also feel the squeeze from this month's decree imposing a one-off tax on net worth of 7.5 per cent per L1,000.

The unions, for their part, have begun a series of politically motivated strikes directed both against proposed budget cuts in health care and pensions and against the prospect of job losses and reduced earnings. The union leadership is in danger of losing control of growing grass-roots militancy, and this is likely to complicate the fate of the July outline agreement ending the *scala mobile*, the post-war system of indexed wages.

However, the unions are on the defensive over job losses. Resisting the unions' demands will be a test of the employers' and the government's nerve in coming weeks.

Robert Graham examines the role of the Italian state in industry

A godfather retires

THE ROLE of the Italian state in industry is undergoing its first real structural change since the Mussolini era.

In the past three months the Amato government has initiated a seemingly irreversible movement away from the state's traditional role as owner, promoter and financial godfather to industry. The state is set to become less interventionist and companies more tightly managed according to market criteria, while a greater share of activity will be hived off to the private sector.

Speed of change will depend on the stability of the government, the opposition of powerful lobbies, the attitude of the trades unions, access to funds and government ability to prepare a privatisation programme that convinces investors.

At present the state accounts for 15 per cent of non-agricultural employment, 20 per cent of added value and 25 per cent of fixed investment. The political parties are almost unanimous in accepting the need to slim down this presence, albeit for differing reasons. But the scale on which this should be carried out, and the methods employed, are far from agreed.

The Amato government is oscillating between two contrasting "conceptual" positions over the new role of the state. One group within the government, backed by many managers among existing state companies, favours developing links between the public and private sectors along the lines of French and German models.

They argue that the state should earmark strategic sectors which require large capital outlays and long lead-times on investment returns, and then create mixed state/private sector groups linked to mixed or even solely state financial institutions.

They see this as the sole means of ensuring that Italian industry maintains (or obtains) a share of the markets in new areas of high technology, especially information technology. This approach also tackles one of the fundamental long-term weaknesses of Italian industry – the existence of a few very large private groups such as Fiat, Pirelli, Montedison-Ferruzzi and Olivetti, and a plethora of small companies, with little between of medium-size.

A second approach argues that "internationalisation" of the Italian economy has eroded the need for the state to earmark "strategic sectors." Steel, chemicals, aluminium and ship-building, for instance, were promoted on protectionist principles of assuring domestic supply. With the lower tariffs and greater international competition, these principles went out of date.

Furthermore, with pressure on costs the portfolios of IRI, the state main holding company, or ENI, the state oil concern, can scarcely be considered wholly strategic – or, indeed, logical. They have become over-loaded, with loss-making companies taken on for political and social reasons.

Privatisation risks exchanging state ownership for big private sector names

The parlous state of public finances also means that funds for state industries can only come from the market. And even if the government were minded to provide subsidies, this runs against the increasing vigilance of Brussels, which penalises unfair competition. For instance, Finmeccanica, the engineering subsidiary of IRI, had to pay back – on Brussels' orders – the subsidy received to cover the losses of Alfa Romeo prior to its sale to Fiat in 1986. Italian state aid to industry during the 1980s was running twice as high as that of France, nearly three times that of Germany.

Thus, instead of turning to the state for financial assistance, the second school of thought argues that the government's role confine itself to fiscal incentives and generating the right kind of climate to encourage foreign and domestic private investment to stimulate new industries.

This would also entail new stimuli for the creation of medium-sized companies, in particular providing tax incentives for smaller companies to merge without being penalised by added value tax on revalued assets. A powerful reason for the prevalence of the small family company is precisely the lack of incentive to be more visible to the taxman.

Without new medium-sized players, privatisation of industry merely risks exchanging state ownership for control by the big names in the private sector – perhaps creating new de facto monopolies in the process. Professor Giuliano Amato, the prime minister, is opposed to such an outcome. But equally, no member of the government has come forward with concrete ideas about how a slimmed-down state sector might tackle the problems of providing Italian industry with the right mix of technology and economies of scale to compete internationally.

Emotionally the government favours the idea of a slimmed-down but strong state presence acting in concert with private capital, especially in sectors of advanced technology, which require long lead times on investment returns and entail risk. A group like ENI, which in 30 years has become one of the most important forces in the international oil business, grew up as a clear projection of the Italian's state need to assure foreign energy supplies without being dependent upon the old cartel operated by the "Seven Sisters" – the seven biggest multi-national oil companies.

One important factor influencing the outcome will be the future status of the state-controlled banks and financial institutions which still account for two thirds of activity in the banking system. For instance, should the Treasury's BNL or IRI's Comit be restructured in a formal financial/banking alliance with Finmeccanica, which has become the state's arm in several advanced technology sectors? (Finmeccanica has 45 per cent of SGS Thomson,one of the cornerstones of French plans for "poles" of advanced technology and industrial production.)

The government now seems willing to accept the concept of surrendering 51 per cent control of most – if not all – companies. But this still begs the question of the future shape of state-owned stakes. Can the state retain control through a British style system of a golden share, or should there be a clear minority stake ?

Privatisation and the consequent reduction in the state presence is seen by the international community as an essential means of gaining credibility. Thus on July 11, in one of its first acts, the Amato government decided to convert into joint stock companies IRI, ENI (the state oil concern), ENEL (the electricity authority), and INA (the insurance institute).

The original idea was to group them into one or two "super-holdings" along with the Treasury's own banks and financial institutions. The super-holdings were to have "clean assets" of L60,000bn, against which bonds were to be issued as a preliminary to subsequent privatisation.

But this plan was dropped. It was too complex. It created an additional administrative structure which raised legal problems with foreign creditors over some L80,000bn worth of debts in these entities. Instead, these four entities became joint stock companies on August 7, with slimmed down three-man boards and the Treasury as sole shareholder, as a preliminary to restructuring their holdings.

The main immediate effect has been to remove a string of political appointees from their boards, although the presidents have been retained for the time being. The board shake-up, inplying technical management, is a big breakthrough.

The government's resolve has also been evident in the decision to place into voluntary liquidation Efim, the loss-making state industrial holding. Over the years Efim had accumulated an unplanned mixture of assets, from aluminium and automotive glass making to aerospace and mass transit systems, but was weighed down by debts of over L8,500bn. The move underlined the fact that the government was no longer prepared to keep alive loss-making groups.

The real test for the message from Efim will come in the next two months.

IRI, now a joint stock company, looks under-capitalised

Slim-down speeds up

NUMBERS, when spelled out in Italian, can produce words of extraordinary length. In the new statutes of IRI, the state holding which became a joint stock company in August, you need 53 characters to spell out the registered capital – nearly one and half lines of text.

But when it comes to figures the L1,873bn capital looks less impressive for a company whose holdings make up for nearly 5 per cent of Italy's GDP. If it is to remain the holding company for the largest conglomeration of industrial and financial interests in the EC, IRI is under-capitalised.

Before its change of status, the annual turnover of IRI companies was almost L80,000bn; debts stoods at L61,000bn and some L71,000bn was planned in investments over the next three years. However, the entire Italian public sector is now under review, and IRI's basic role as the prime promoter and financier of industrial development, since it was first formed in 1933 under Mussolini, is set for a thorough transformation.

At one extreme, IRI could simply have the function of managing the sell-off and break up of its portfolio of holdings, so that eventually it would wind itself up. At the other end of the scale, IRI could become a slimmed-down industrial operator with a rationalised portfolio still controlled by the state. Here, future funding would have to come from borrowing in the market, sell-offs and stock market floatation, with consequently greater private sector involvement.

Already the change to a joint stock company, with the Treasury as sole shareholder, has removed IRI from the direct control of the political parties. IRI was traditionally beholden to the parties in government and always dominated by the Christian Democrats. This control was exercised directly through the appointment of the holding's president and an advisory board of political appointees. The latter was eliminated in August and, although the Andreotti government's appointee as president, Mr Franco Nobili, remains, he is unlikely to stay beyond November, when proposals on IRI's role are scheduled to be completed.

In the meantime IRI is being run by a small team headed by Mr Michele Tedeschi, the 52 year-old managing director who has spent his entire career as a manager in the state sector. Since 1980 he has been with the IRI management and from 1989 he has been chief executive with specific responsibility for coordinating the holding's strategy.

He has also been involved in two of the most important areas of IRI operations: Finmeccanica, the holding which coordinates engineering activity and high technology, and STET, the telecommunications holding, which accounts for more than a quarter of IRI's sales.

Mr Tedeschi was responsible for IRI's strategic plan, released in May. The philosophy behind this was an acceleration of the slimming process, in evidence over the past decade, in which some 100,000 jobs have been shed – over a fifth of the workforce. IRI would have sold off by 1995 assets worth L11,000bn. But these would have been mainly minority interests, although full sell-offs were not excluded to rationalise the state presence in specific sectors.

Earlier this year IRI sold its cement interests in Cementir, which controlled 10 per cent of the Italian cement market. Also as part of the strategic plan, IRI's steel subsidiary, Ilva, reduced its involvement in long products by forming a 40/60 venture with Lucchini, the private steel group.

IRI management would feel most comfortable following this strategic plan, becoming in the process an industrial operator. This would also entail consolidation of the group's involvement in high technology areas and the extension of international alliances such as Finmeccanica's 45 per cent stake in France SGS Thomson. Finmeccanica itself is scheduled to float its shares later this year, making it less directly dependent upon IRI.

A critical issue to be addressed will be the future shape of Finmeccanica. If IRI is really set to slim down, or even disappear, Finmeccanica could well form the core of a mixed state-private engineering group or, alternatively, form the basis of a more coherent state presence in engineering and high technology.

Finmeccanica had already begun an attempt at rationalising the state presence in the engineering sector through an agreement in principle with some of the complementary interests of Efim, the loss-making industrial state holding. Efim was placed in liquidation in July, overtaking this outline agreement. Finmeccanica – in the short term at least – may be obliged to take on some Efim assets. But this in turn could affect Finmeccanica's floatation.

Michele Tedeschi of IRI

All this merely emphasises the opportunity now available for a thorough rationalisation of what had become an ungainly hybrid organisation. The old holding acted as the umbrella organisation, financier and strategic planner for an enormous variety of industrial activities, from aerospace, civil engineering, and electronics, to foodstuffs, information technology, ship-building, steel and transportation, through to financial services, banking and control of state television. These different sectors lacked integration and made little use of synergies.

Subservience of IRI to the politicians has dictated the irrational accumulation of holdings and loss-making activities in recent years. This was especially so in the case of investments in the south, which have latterly been absorbing a third of all investments. Political linkage was reinforced by the nature of IRI's funding. It had no capital; it had a small endowment fund – until 1984 it simply received cash handouts from the government.

Since 1990, as the government cut back on transfers, IRI had been increasingly obliged to seek ways of raising its own cash and permitting more of its subsidiaries to seek external funding in the market – although this practice could only apply to profitable operations such as STET.

Thus IRI's identity was split between politically motivated investment/financial operations and those determined by the market. This played havoc with the accounts, with "cash cows" such as the autostrada operations and telecommunications on one side, and loss-makers such as Fincantieri (shipping) and Iritecna (civil engineering) on the other.

IRI will receive a welcome cash injection from last month's government decision to permit the sale of the holding's 67 per cent stake in Credito Italiano, the country's sixth largest commercial bank. But the search for cash will not end here.

This month IRI announced the controversial sale of its stake in Finsiel, its software holding, to STET for L700bn. The move provoked an outcry from the stock market, which saw the operation as a crude means of raising cash with STET paying an excessive price for an asset it did not need. IRI claimed there was industrial logic behind the deal: telecommunications groups needed to forge alliances in the expanding services sector.

Despite the polemics, the Finsiel deal underlined that the determining element in IRI's future will be its own financial health. The burden of debt is high. The state is pledged to guarantee existing IRI obligations. The market is unlikely to view kindly any further accumulation without a clear strategy of sell-offs.

Robert Graham

ITALIAN INDUSTRY 3

David Lane looks at the newly nationalised electricity industry

U-turn seems possible

Thirty years ago Italy's electricity industry underwent a radical reorganisation. Nationalisation created a state-owned body charged with production, transmission and distribution on a nationwide basis.

Ente Nazionale per l'Energia Elettrica (ENEL) was born from the buy-out of about 1,300 private companies. Now ENEL itself faces the prospect of a revolution; privatisation seems a real possibility.

The first step towards stock market quotation and privatisation was taken in July this year, when a government decree transformed ENEL into a joint stock corporation (*società per azioni* SpA). The share capital of just over L12,100bn was assigned to the Treasury.

Mr Franco Viezzoli, ENEL's chairman, hopes quotation will be possible next year. "But it needs careful thought, planning and execution, otherwise the operation could boomerang," he warns. "At least 51 per cent of the equity must be sold for privatisation to be a reality. Logic suggests that more than 51 per cent should be sold, but the decision lies with the Treasury. I would like to see 28m shareholders – as many as ENEL has customers."

ENEL will have to overcome a large obstacle in order to be appetising to investors: low profitability. After years of heavy losses it returned to break-even in 1985, advancing last year to a net profit of L229bn on net revenues of L27,222bn and net equity of L15,510bn. In spite of the improvement, such results are clearly not the kind to stimulate investors' enthusiasm.

Before his conversion to privatisation, Mr Viezzoli often noted that the electricity sell-off in Britain was preceded by substantial tariff increases. But Italy's present climate seems to preclude this option for ENEL. Mr Viezzoli said, however, that ENEL already has some scope for declaring higher profits. Last year it booked L1,200bn of accelerated depreciation in its accounts, from the L5,520bn total charged.

Mr Viezzoli says that the corporation must improve its profit and loss account in order to offer the Treasury the opportunity of undertaking stock market quotation in the best possible way. One objective is to reduce dependence on borrowing. (This rose significantly last year to L32,170bn and net financial charges also moved sharply upwards to L3,009bn.)

ENEL's chairman believes that cooperating with and encouraging Italy's independent producers would help the accounts. At present the state corporation is responsible for just over 80 per cent of total Italian electricity production; the remainder is produced by local utilities and industrial autoproducers. There is scope for a greater contribution to demand coverage from other national producers, and the latest national energy plan seeks to exploit this. "If others invest more, ENEL could invest less," says Mr Viezzoli.

Last year its investment totalled L9,088bn, compared to L7,979bn in 1990. When presenting the accounts earlier this year, Mr Viezzoli noted that the increase in investment in 1991 was the precursor of even greater expenditure. ENEL's five-year 1992-1996 programme budgets for total investment of L73,900bn, an annual average of nearly L14,800bn.

Investment on production plant took nearly 45 per cent of last year's total, a share that rises to 54 per cent in the five-year programme. Part of this will be spent on making environmental improvements to existing plant. Overall, ENEL's planned investment on environmental measures absorbs one sixth of the total.

This may help assuage the fierce opposition that the corporation's plans have encountered with green groups. Already active, Italy's environmentalist lobby advanced its cause significantly when it scored an important anti-nuclear victory in the referendum held in November 1987. Over 80 per cent of voters rejected nuclear power in Italy in the wake of the Chernobyl incident.

Operational stations at Caorso, Trino Vercellese and Latina were shut down. Work on the 2 x 1000MW plant at Montalto di Castro, three quarters completed, was stopped, and site preparation for a similar plant as neighbour to the existing station at Trino Vercellese was abandoned. Italy has produced no electricity from nuclear power since 1987. Mr Viezzoli believes that there will be no return to nuclear in his lifetime.

But the environmentalists have not limited their objections to nuclear power. From top to toe of the Italian boot, power station sites have been targets for verbal "green" attacks.(In Tuscany it has reached the point where there is real sabotage, with high voltage lines being toppled.)

Montalto di Castro, on the coast about 70 miles north of Rome, typifies the difficulties that ENEL has faced over recent years. After pulling out of the nuclear project, the switch to conventional power(4 x 660MW of multifuel plant plus 800MW of gas turbine repowering) encountered no serious planning obstacles, albeit the cost of abandoning nuclear was enormous. But there was strong opposition to the use of coal.

Now that natural gas will be the main fuel, problems centre on logistics. Insufficient pipeline capacity means that an LNG terminal is needed. Former EC environment commissioner Carlo Ripa di Meana, who now holds the environment portfolio in the Italian government, said in July that studies need to be made of the environmental impact of the proposed terminal.

It is hard to see Montalto di Castro enjoying trouble-free completion, in spite of the entry into service of the first gas turbine unit in April. But since conversion to conventional power, it has made easier progress than two large projects in the south.

Brindisi Sud in the Apulian heel and Gioia Tauro in the Calabrian toe are long-running sagas that highlight the difficulties that ENEL has encountered in siting and building new plant. Authorised in June 1982, work started on the Brindisi Sud 4 x 660MW plant in November 1983. It was then dogged by frequent interruptions due to local political disputes and concern over the plant's environmental impact.

Franco Viezzoli of ENEL: "the operation could boomerang"

But while the first two units of the Apulian plant are now feeding the grid, progress at Gioia Tauro is blocked. It is 13 years since the decision was taken to build a power station at Gioia Tauro, but ENEL seems no nearer to the finish.

Leaping bureaucratic hurdles has been a problem. So has infiltration by the local families, eager for their share of the action. This led to the site's sequestration by armed carabinieri in July 1990. Mr Viezzoli may be optimistic in expecting the station to enter service at the end of the decade.

But ENEL is now making better progress in commissioning new plant. After bringing just 3,400MW of new capacity into service in the five years 1986-1990, 1,280MW started producing last year, followed by a record 3,000MW this year. 2,000MW is expected in 1993.

Indeed, ENEL's capacity situation is now such that talk about power black-outs has almost ceased. Slowdown in demand growth helped. After average annual increases of 4 per cent from 1983 to 1989, Italian electricity consumption registered growth of 2.8 per cent in 1990; 2.2 per cent last year and in the first eight months of 1992. From 181TWH in 1983, demand leapt to 235TWH in 1990, increasing modestly to 240TWH last year.

That black-outs were avoided in the late 1980's owes much to imports. In 1983 net purchases from abroad totalled 11.1TWH and covered 6 per cent of total demand. Last year net Italian electricity imports were 35.1TWH and covered nearly 15 per cent of demand.

This import dependence, caused by abandonment of nuclear power and slow progress on construction programmes, has led ENEL to examine some radical solutions. The project for a huge artificial man-made power station island in the Adriatic is still under consideration. So are proposals for building plant in the Ukraine and Tunisia.

The technical and operational challenges facing ENEL are still considerable. To these it now adds the institutional and financial challenges of privatisation. If there is any certainty, it is that ENEL's unified structure and single national tariff will remain.

ENEL FINANCIAL DATA Lire bn

	1987	1988	1989	1990	1991
Net revenues	20,125	20,511	22,614	24,608	27,222
Added value	12,726	13,441	13,945	14,609	16,560
Depreciation	4,150	5,099	5,124	4,871	5,520
Net charges	2,289	2,141	2,189	2,445	3,009
Net profit	134	138	156	211	229
Financial debt	27,249	26,232	27,762	29,324	32,170
Net equity	12,823	13,961	15,117	15,256	15,510

Source: ENEL

Electricity demand and coverage in terawatt hours

	1987	1988	1989	1990	1991
Total Italian demand	209.8	220.4	228.7	235.1	240.3
Demand on ENEL network	182.3	191.7	199.7	205.4	210.3
ENEL gross production	169.5	170.3	178.1	181.3	182.3
Net imports	23.1	31.3	33.7	34.7	35.1

ENEL

Antonia Sharpe profiles Montedison, world leader in plastics

Keen to forge alliances

EVER since a team of scientists in Ferrara discovered polypropylene (PP) 30 years ago, Ferruzzi-Montedison, the Italian food and chemicals company, has dominated the world's production of this widely-used plastic.

As a result of funding the team's research, led by the Nobel Prize winner Professor Giulio Natta, the Italian group was able to invent the best technological processes for the production of PP.

Himont, the group's chemicals subsidiary, is the world's leading producer of PP, accounting for about 16 per cent of the world's capacity of 16m tonnes a year. It is also estimated that about 60 per cent of the world's PP capacity, existing and planned, is based on Himont's licences.

Himont's production process for PP, under the trademark Spheripol, is generally accepted as the best in the world. Using this process, the plastic is produced in little balls, making it more malleable than when it is produced in

Himont has adapted its highly-efficient Spheripol process to produce polyethylene (PE), under the trademark Spherilene. Of all the polyolefin-based materials, PE is produced in the greatest volume. But PP is increasingly being substituted for PE, especially in packaging materials.

Ferruzzi-Montedison is keen to hold on to its leading position in plastics but it is looking for alliances with its competitors in order to share the investment in research and development, and the high fixed costs of plants and

In September, Montecatini, the subsidiary which co-ordinates Ferruzzi-Montedison's chemical, pharmaceutical and energy activities, and Shell Chemicals, part of the Anglo-Dutch oil group, announced a proposal to merge their activities in PP and PE.

The proposal, which needs approval from the European Commission because it would link Europe's largest PP producers with a combined capacity of 3m tonnes, appears to be a perfect fit. Montecatini has only modest PE production capacity – it has a plant in Texas with annual production capacity of some 10,000 tons and it is building another in Louisiana with capacity of 200,000 tons. But Shell already has production capacity of 500,000 tons, using Montecatini's Spherilene licence.

Mr Carlo Sama, the managing director of Montedison, is keen to find further alliances for Montecatini's other chemicals and pharmaceuticals activities, mainly to reduce the company's high debt – mostly the result of series of acquisitions in recent years.

The group's net debt-equity ratio has jumped from 0.88 at the end of 1991 to 1.06 by June 30 this year, but the company intends, through these alliances, to halve this by the end of 1993 by continuing to cut costs and jobs, and through the sale of non-strategic real estate and minority stakes.

As a result of the re-organisation of the Ferruzzi-Montedison group and the merger of Eridania with its French sister, Béghin-Say, its earnings are now better protected against the cyclical chemicals sector.

In 1991, food accounted for 64.7 per cent of total sales of L15,732bn and 54 per cent of gross operating profit of L1,828bn. By contrast, chemicals accounted for 20.7 per cent of sales and 19.9 per cent of gross operating profit.

Ferruzzi-Montedison is now one of the leading producers of sugar, edible oils and starch in Europe, with particular strength in Italy, France and Spain.

At the same time Ferruzzi-Montedison is investing in research and development to find further industrial uses for its agricultural products. It has developed the technology to produce a diesel fuel from soya, sunflower and rapeseed oils.

The fuel provides the same performance as traditional diesel, but it pollutes less, producing only half as much exhaust emissions, and no sulphur. The distribution of "Diesel-Bi" is still at an initial stage, though it is being used by buses and taxis in several European cities, including Florence, Genoa, Zurich and Freiburg.

Montedison is building a plant with capacity of 60,000 tonnes in Livorno, which should be in operation by the end of the year. The cost of producing this environmentally-friendly diesel is more expensive than traditional diesel, mainly because of the lack of economy of scale, but because it is not taxed, the cost to the consumer is the same.

Professor Giulio Natta's team developed polypropylene

The group has also discovered a way to make a bio-degradable thermo-plastic material from corn starch. This plastic will only be used in niche areas, such as in the production of nappies, sanitary towels and other hygiene products, as well as the production of large plastic sheets to protect farmers' crops in winter.

While these innovations are important from a technological point of view, it will be many years before they make a significant contribution to profits. However, government plans partially to privatise the Italian energy industry could well boost the company's earning power.

Edison, which consolidates the group's energy activities, is Italy's largest private producer of electricity, with 21 hydro-electric power stations and two thermo-electric power stations in northern Italy. At present Edison only generates energy for internal use, but a change in the law would allow it to sell excess output to Enel, the state electrical authority.

Even a medium-sized Italian company tends to have a much broader choice of banking relationships than its counterpart in most other European countries.

Haig Simonian reports that 'bashing the banks' may start soon

Interest rates stand sky high

UNLIKE in the UK, "bashing the banks" has not yet entered the vocabulary of most Italian industrialists, in spite of the growing domestic recession.

However, the heady climb in interest rates since the Danish "no" vote on the Maastricht treaty in June, which plunged Europe's financial markets into turmoil, is already taking its toll on the corporate sector; companies complain of much tougher conditions and revising their 1992 earnings forecasts downwards.

Interest rates in Italy now stand at astronomical levels, even for a country used to elevated borrowing costs during the high inflation period of the 1970s. One big Milanese bank's "prime rate" for top-class borrowers has reached at 17 per cent, while riskier creditors have to pay the so-called "top rate" of 23 per cent. For borrowers exceeding their agreed overdraft limits, the maximum rate is two percentage points higher.

Despite such vertiginous figures and the lira's gyrations after leaving the exchange rate mechanism of the European Monetary System, there is little sign as yet of a backlash from industry. Nor do many businessmen seem to be accusing the banks of "profiteering" at their expense.

The explanation is partly structural. Many Italian companies, especially those owned privately, rely on retained profits for a large proportion of their financing, compared with the generally much higher levels of gearing seen in the UK and US.

The range of companies' banking relationships may also play a part in clarifying why Italian business are not, as yet, complaining of a "cultural gap" with their bankers.

Even a medium-sized Italian company tends to have a much broader choice of banking relationships than a like-sized counterpart in most other European countries. According to the chief economist of one leading commercial bank, the average medium-sized Italian concern has 12 bank relationships. In the case of a multinational like Fiat, Italy's biggest private-sector group, the figure would be between 100 and 200.

That has in the past allowed corporate borrowers, even of relatively modest dimensions,

Many Italian companies, especially privately owned, rely on retained profits for much of their financing

to be fairly choosy when it cames to picking banks. Matters have been reinforced by the rules governing overdraft facilities in Italy. "The fact that the great majority of Italian overdrafts are non-committed - so banks can notionally withdraw them at minimum notice - means no commitment fees are charged. The upshot of that has been to encourage companies to negotiate relatively high overdraft ceilings, which are seldom used. Moreover, such arrangements are made with a number of banks, meaning that companies have had considerable cash at their disposal", says the economist.

Until the recent economic downturn, that tended to place relatively liquid corporate borrowers at an advantage over their bankers. "In some cases, banks would compete with one another by offering bigger credit lines. And in certain instances, borrowers could play one bank off against another to edge down interest rates or gain better conditions", he adds.

The "polarisation" of the market between a powerful group of liquid companies and their bankers on the one hand and the considerably different relationship between weaker companies and the banks on the other probably reached a peak in the middle of this year, before the markets went into disarray and interest rates started to soar.

While banks reported heady lending growth to corporate customers, with annual rates of expansion for credits of up to 20 per cent, not all the cash lent was being used for industrial purposes, in a model bearing some similarities to the speculative circle that built up in Japan in the late 1980s.

Explains one banker "From around 1988, the rate of banks' loan growth has been running around twice that of Italy's gross domestic product. While some companies needed the money for their business, more liquid concerns found they could make an attractive spread by reinvesting borrowed funds in a variety of financial instruments".

Italian government bonds were the most popular. Figures from the Bank of Italy show that, at end-91, over L41,000bn in cash from non-financial companies was invested in the bond market. A further L45,700bn was ploughed into foreign shares or bonds.

Matters changed sharply after this summer's currency turmoil. "Now it's become a sellers' market", says one banker. "Profits are falling, leaving less money to plough back into the business than before. Meanwhile, creditors are taking much longer to pay their invoices. So companies are becoming much less liquid and having to rely more on their banks accordingly".

Bankers admit the rates they charge depend partly on a company's location. At one top Milanese bank, 27 per cent of all corporate loans carry the prime interest rate of 17 per cent, while only around a tenth of the total pay the 23 per cent "top rate". But there is a marked geographic split between the rates being paid in the north against those in southern Italy. On average, corporate borrowers in southern italy were charged between 4 per cent and 5 per cent more for their money than their northern counterparts.

The lira's slide should lead to an average 20 per cent rise in companies' gross operating profits in 1993

"The gap reflects the fact that there are fewer banks in the south, and hence less competition. It also testifies to the greater risk of lending to south Italian companies, which, on average, tend to be less solid financially than their northern colleagues", says the banker.

Surprisingly, most banks say they are not yet worried about a major deterioration in the quality of their loans as a result of the recession. Signs of an economic downturn were already visible from the middle of last year, and bankers claim they have been much more cautious since.

Moreover, despite this summer's surge in interest rates and the growing domestic recession, many bankers expect the lira's devaluation to help the corporate sector given the high export quotas of many Italian companies.

"The average Italian concern exports 20 per cent of its turnover", says the bank economist. "Obviously, the precise effect will depend on the exact breakdown of a company's foreign turnover. Those selling to countries like the UK, whose currencies have appreciated relatively little against the lira, will receive less of a boost than those selling to Germany or the US".

According to his calculations, based on a 10 per cent lira devaluation against a basket of currencies and a rise of 5 per cent in domestic costs next year, the lira's slide should lead to an average 20 per cent rise in companies' gross operating profits in 1993. In the circumstances, the relative harmony between companies and their bankers is easier to understand.

Small is no longer beautiful in business

Threat to life blood

ITALY'S small businesses, whose flexibility has pulled the country out of recession several times since the second world war, are facing a serious threat as high interest rates and rising labour costs reduce their ability to remain competitive at home and abroad.

Small- to medium-sized companies are the life-blood of Italy's economy. They account for an estimated 70 per cent of industry's total sales and about 40 per cent of exports.

Confindustria, Italy's employers' federation, estimates that companies with fewer than 20 employees make up 95 per cent of all Italian companies and employ 36 per cent of the industrial workforce. Companies with fewer than 100 employees are estimated to account for 99 per cent of all companies and employ 59 per cent of the industrial workforce.

The combined strength of these small companies – most of them the fruits of first-generation entrepreneurs – is all the more admirable in view of the lack of interest that successive post-war Italian governments have shown in them. Indeed, the nation's industrial policy has focused on big companies, both in the state and private sectors.

But Italy's entrepreneurs have become increasingly frustrated that almost no government help has been forthcoming in their hour of need. They want the government to acknowledge and base its economic policies on the fact that Italy's economic future lies in industry, especially in small businesses, and not, for example, in tourism or agriculture.

A survey of 355 companies with an average of 36 employees commissioned by Confapi, the Italian confederation of small and medium-sized industry, showed that in the half of 1992 many small companies were experiencing financial difficulties because of the rise in interest rates.

The difficult financial situation was compounded by continued weakness in the domestic economy in the six-month period; both exports and domestic orders showed a decline.

Labour costs rose by an average 3.74 per cent in the first half, the survey noted, but Confapi officials said prospects in this area had improved since abolition, at the end of July, of Italy's *scala mobile* wage indexation system.

Indeed, Italy's increasingly rigid labour laws and the rise in employers' contributions to the state over the past decade are mainly to blame for the loss of flexibility and competitiveness of small businesses.

For a company with annual sales of up to L5bn (£2.3m), the labour costs per employee rose by 79 per cent to L29.7m (£13,884) between 1982 and 1988, while a company with sales of between L25bn to

Small businesses worry that technological advance can no longer help them to compete

L100bn saw labour costs per employee jumped by about 90 per cent in the same period, to between L35.7m (£16,690) and L37.9m (£17,718).

But what is perhaps more worrying for small businesses is that the advance in technology can no longer help them to remain competitive. In the early 1980s, technology concentrated on individual machines which resulted in some degree of convergence in productivity between big and small companies. But technology has now progressed to such an extent that entire manufacturing systems to replace dozens of workers are being produced.

In the 1980s, small businesses tended to invest in machinery which increased their productive capacity rather than levels of efficiency. The disadvantage of this decision can now be felt as productivity levels slow down.

Another problem facing small companies today is that an increased number of them have become dependent on larger companies for most of their orders. The percentage of sub-contractors among companies with between 10 and 100 employees had risen from 45.5 per cent in 1978 to 57.7 per cent in 1984 and is estimated to have risen further since then.

One solution to this predicament would be for small companies in the same industry to merge (already happening in the textiles and furniture industries), or to be taken over by a larger company.

Merging would narrow the large gap in Italian industry between the tens of thousands of small businesses and the handful of very large companies – and facilitate long-term borrowing from banks to buy necessary new technology.

Financing has always been problematic for small businesses in Italy because, unlike their counterparts in Anglo-Saxon economies, they have been unable to tap the stock market or other financial markets. Neither can they get banks to inject capital, which happens often in Germany, because in Italy banks are not allowed to take stakes in companies. Furthermore, they have to compete with the state for private savings.

So small businesses rely heavily on short-term financing, either in the form of trade credits or bank loans, though some small business owners have clubbed together in so-called mutual guarantee schemes, to get more attractive loans from the banks.

Confapi is concerned about the high proportion of short-term financing among its members – estimated at 70 per cent – and has asked the government for funds of L7,000bn (£3.3bn) to help small businesses convert them into longer-term loans.

Some economists believe that the "small is beautiful" concept may have run its course in Italy, and that the small companies which survive the current difficulties will be those which have made the necessary technological leap, or those least dependent on big companies. They fear that others, especially those in troubled industries, will either have to merge, sell out, or close down.

But it would be foolish to underestimate the resilience of Italy's entrepreneurial class, which has triumphed over economic adversity in the past. Italy's "*piccoli forti*" could well live to fight another day.

Antonia Sharpe

Turin Polytechnic pioneered research links with industry, writes **Robert Graham**

Intelligence opens the door

THE CONCEPT of linking universities and polytechnics with industry, both to raise funds and to cross-fertilise R & D, has been little developed in Italy.

University statutes have been structured so that they are centrally controlled from Rome – and dependent upon the government for funding. Thus there has been little incentive for them to seek external funding or offer their skills and facilities to industry.

This position has been reinforced by the limited number of industrial concerns of sufficient size and technological advancement to consider collaboration. Within this broad overall picture, Turin Polytechnic has proved a notable exception.

It has taken advantage of its location to pioneer research links with industry. Turin, the company town of Fiat, has been the centre of the Italian automotive industry while also hosting an important range of engineering establishments in the surrounding Piedmont. This has proved a fertile catchment area for contract work now both national and international in its scope.

"Today we obtain about 7 per cent of our total funding from outside contractual work," says Professor Rudolfo Zich, the rector. These contracts now cover 40 per cent of the polytechnic's annual research budget; they will be worth L8bn this year.

The activity, first developed in the early post-war years, has been helped by the polytechnic's status: it specialises in engineering, physics and mathematics, together with separate faculty of architecture. Contractual work was a logical extension of its prime function – supplying graduate engineers to north Italian industry. But it was not until the early 1980s that changes in the laws regarding universities permitted a leap in outside contract work with industry.

It was novel to permit university staff, paid from central government funds, to earn up to 30 per cent more of their basic salary through outside work. This also coincided with the expansion of the number of fields under study; electronic engineering and information technology in particular. Turin Polytechnic now has 15 departments under the umbrella of its engineering faculty.

"Our aim in seeking contract work has never been to substitute state funding," says Prof Zich. Public funding is still seen as necessary to guarantee the institution's primary function of teaching and pure research. "Rather we see it as an intelligent way of opening up the university, acting as a form of self-analysis of our ability to carry out applied research. It also helps to get the student involved in the outside work," he adds.

Outside work with industry takes five forms: consultancy; teaching and information; the sale of information on research already carried out; help in testing; contributions to research. In this way the institutions aims to make maximum use of its own laboratories and facilities while also doing the same with those

"Our aim in seeking contract work has never been to substitute state funding"

made available by companies and other research institutes. The real limit on outside work is the size of staff, which is controlled largely by the the ministries in Rome.

By the end of the 1980s, 55 per cent – some 180 projects – consisted of consultancy; 38 per cent of research (127 projects). As a basic guideline, requests for outside work are weighed by a committee on the basis of quality and the length of research, with the emphasis on long-term projects begun at a "pre-competitive stage." But Turin is careful to ensure an equal share in intellectual property rights and patents.

The maximum annual value of an individual contract is about L400m, with a minimum of about L10m. The polytechnic has had various contracts with Fiat, and in 1988 signed an agreement which enables recent graduates taken on by Fiat's research centre(CRF) to carry out joint research.

The polytechnic denies, however, that it depends on this home-town industrial giant. Other local industries such as the state controlled Alenia aerospace group provide considerable work in radar, composite materials and wind tunnel projects; while one of its most profitable ventures has been in telecommunications, developing the Topsim software system and winning work from France's Alcatel.

The polytechnic's expertise in radar also led to its most unusual contract: working for a group of families acting together as the civil party investigating the causes of the crash, in 1980, of an Italian civil airliner off the island of Ustica.

The report just completed by the polytechnic's team has thrown new and dramatic light on the crash. It proves, from analysis of radar transcripts, that an aircraft, almost certainly military, was "hiding" under the civil airliner just before the crash, and another was also in the vicinity. Their work on the Ustica case looks likely to clarify one of the most mysterious civil airliner crashes in post-second world war history.

Local groups still account for 51 per cent of all contracts, but other regions now generate 38 per cent of work undertaken, with 10 per cent coming from the EC. And more than three-quarters of all this is directly for industry, as opposed to other research institutes. Significantly, private sector industry predominates, generating 42 per cent of the work. Consultancy tends to be with smaller companies; R & D with the larger ones.

As part of involvement with industry, in 1987 the polytechnic formed a consortium for research and higher education (COREP) as a venture with Turin municipality, the Piedmont regional council, the local industrialists' union, Fiat, IRI (the state holding company), Digital and Olivetti.

On the one hand COREP offers short courses in informatics and robotics/automation to employees in local industry; it has also set up a laboratory for micro-electronics and optics. COREP has suffered from lack of the anticipated funding, and at present is marking time. In

THE WEEK AHEAD

ECONOMICS

Retail gloom remains

THIS week will bring disturbing reminders of the difficulties plaguing the British economy and should provide some explanations for the government's decision to cut bank base rates by a full percentage point last Friday.

Subdued domestic demand will influence Wednesday's retail sales figures for September. Although shop sales began quite strongly, analysts report that discretionary spending fell during the days following Black Wednesday and expect a small decline in sales volumes compared with August.

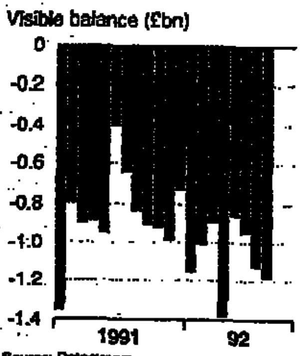
UK money supply figures on Tuesday are expected to show that bank and building society lending was weak last month. Economists expect that Britain's trade figures on Thursday will continue to show visible and current account deficits of more than £1bn in September.

Although sterling's devaluation since September 16 will make exports more competitive, Britain's heavy dependency on imported goods could result in bigger visible trade and current account deficits in the months ahead.

Towards the end of the week, the German Bundesbank should produce its M3 money supply statistics for September. These will be inflated by the large-scale currency inflows during last month's crisis in the European exchange rate mechanism.

Bundesbank watchers will monitor reactions to the figures from central bank council members to assess whether German interest rate cuts are in the offing.

UK trade



Source: Datastream

Signs are growing of a sharp slowdown in activity in Germany. Some indication of current inflationary pressures will come in preliminary cost-of-living data from North Rhine Westphalia and Baden Württemberg.

Some of the week's highlights follow. The median of economists' forecasts from MMS International, a financial information company, are given in brackets.

Today: United States, final presidential debate in East Lansing, Michigan. France, August industrial production (up 0.5 per cent on month). Australia, August export prices. Canada, August wage settlement increases.

Tomorrow: Japan, August leading diffusion index. September M2 plus CD money supply (down 0.1 per cent). UK, September M0 (up 0.4 per cent on month, 2.2 per cent on year), M4 (up 0.1 per cent on month, 4.8 per cent on year), M4 lending (£2.4bn). US, September housing starts (1.2m).

Wednesday: France, G7 deputies begin two-day meeting in Paris. UK, September retail sales (down 0.3 per cent on month, up 0.7 per cent on year), new August construction orders. Canada, August retail sales (up 0.2 per cent on month).

Thursday: UK, September visible trade balance (£1.1bn deficit), current account (£1bn deficit), British chambers of commerce quarterly business survey. US, initial claims for week to October 10 (398,000), money supply for week to October 12. Canada, August wholesale trade.

Friday: France, September trade balance (FFr1bn surplus). US, auto sales, October 11 to 20 (6.1m annual rate), third quarter housing vacancies.

During the week: Bank of Japan fourth quarter economic outlook. Italy, September industrial production (down 1.8 per cent on year), wholesale price index (up 2.1 per cent on year), balance of payments (L7 trillion), October City consumer prices (up 5.3 per cent on year). Germany, September M3 from Q4 base (10.4 per cent), October cost of living in North Rhine Westphalia and Baden Württemberg, September GFK consumer climate survey.

Peter Norman

RESULTS DUE

SMITHS Industries is expected to report on Wednesday a 15 per cent drop in pre-tax profit for the year to July 31 from £120.3m to about £102m, because of slowing demand in its key aerospace sector with falling production rates of F-16 military aircraft and Boeing 737 airliners.

Cash generation is thought to have remained strong and interest income healthy at about £14m despite spending on acquisitions, particularly in its medical sector. An increased dividend of 11.2p (10.7p) is likely. Earnings are expected to fall to 23p from 27.6p.

Albert Fisher, the fresh produce distributor and food processor, upset its shareholders in July with a profits warning. The shares dropped 25p on the day to 41p and have fallen further since it said a glut of produce would hit profits. Analysts cut their forecast to about £60m from £77m for the year ended August, against £89m a year earlier.

The company has many fences to mend when it reports on Thursday.

Wolseley, the heating and building supplier, announces final results for the year to July 31 tomorrow and is expected to reveal pre-tax profits of close to £70m, down from £80.3m a year earlier.

With the UK market flat, analysts will be hoping for signs of upturn from Wolseley's United States operations.

Results from Brossette, the French supplier acquired earlier this year, will be included in the second half but any contribution is expected to be small.

Paterson Zochonis, the Cussons soap and toiletries maker and overseas trader, is likely to report tomorrow full-year pre-tax profits fractionally ahead from last year's £25.4m. It will be a creditable performance considering that one-third of its sales are in Nigeria, which has suffered a 40 per cent devaluation.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Cook (D.C.), 73 Sheffield Road, Rotherham, 9.30.
Murray Income Trust, 7 West Nile Street, Glasgow, *10.30.*
Sheldon Jones, Unicorn Hotel, Prince Street, Bristol, 10.00.
BOARD MEETINGS:
Final:
Lowland Inv.
Interims:
Baltic
Boot (Henry)
Finsbury Trust
Gieves

■ TOMORROW
COMPANY MEETINGS:
Fleming Emerging Markets Inv. Trust, 25 Copthall *Avenue, EC, 12.00.*
BOARD MEETINGS:
Finals:
McKechnie
Paterson Zochonis
Wolseley
Interims:
Edinburgh Inv. Trust
Farnell Electronics
Gerrard & National
Govett Oriental Inv. Tst.
Hammerson Prop. Inv.

■ WEDNESDAY OCTOBER 21
COMPANY MEETINGS:
BZW Convertible Inv. Trust, The Brewery, Chiswell Street, EC, 12.00.
Foreign & Colonial High Inc. Trust, Exchange House, Primrose Street, EC, 12.30.
Smith (W.H.), Millbank Tower, SW, 11.30.
Whinney Mackay-Lewis, Asta House, 55-65 Whitfield Street, W, 3.30.
BOARD MEETINGS:
Finals:
Exmoor Dual Inv. Tst.
Micklegate
Murray Split Capital
Smiths Inds.
Interims:
Aberforth Split Level
Alexandra Workwear
Boxmore Intl.
British & American Film
English National Inv.
House of Lerose
I & S UK Smaller Co's
Le Creuset
Venturi Inv. Trust
Wensum

■ THURSDAY OCTOBER 22
COMPANY MEETINGS:
Bellwinch, Hilton National Hotel, Empire Way, Wembley, 12.00.
Black (Peter), The Brewery, *Chiswell Street, EC, 12.30.*
Close Bros., 33 Great St Helen's, EC, 12.30.
Cray Electronics, The Brewery, Chiswell Street, EC, 11.00.
Creston, Honourable Artillery Co, Armoury House, City Road, EC, 12.00.
ECU Trust, 25 Copthall Avenue, EC, 12.30.
Haynes Publishing, Haynes Sparkford Motor Museum, Sparkford, Somerset, 1.00.
Markheath, 31 St George Street, Hanover Square, W, 11.00.
OMI Intl., 1-11, Hay Hill, Berkeley Square, W, 11.00.
SWP Group, The Registry, Royal Mint Court, EC, 11.00.
Sirdar, Cedar Court Hotel, Wakefield, 12.00.
BOARD MEETINGS:
Finals:
Castle Comms.
Cradley
Fisher (A.)
Interims:
Airflow Streamlines
Craig & Rose
Ferguson Intl.
London Atlantic Inv.
Sketchley
Smith (James) Estates

■ FRIDAY OCTOBER 23
COMPANY MEETINGS:
Lincat Group, Station Road, North Hykeham, Lincoln, 10.30.
NMC Group, Honourable Artillery Co., Armoury House, City Road, EC, 4.00.
Usher (Frank), 100 The Broadway, West Hendon, NW, 11.30.
BOARD MEETINGS:
Finals:
Morgan Grenfell Equity
Overseas Inv. Trust
Yorklyde
Interims:
Conrad Contl.
Downiebrae
Usborne
Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
GEC $0.175
Gaskell 1.5p
IMI 4.2p
Kleinwort Benson 5.3p
London Intl. ADR $0.79
Lonrho ADR $0.049
Pendragon 2.2p
Persimmon 2.8p
PowerGen 6.2p
Texas Instr. $0.18

■ TOMORROW
AAH Hldgs. 10.95p
Aegis 1.375p
Cook (D.C.) 0.3p
Dixons $0.9915
Fluor $0.10
Islington Cp 11.9% Rd 2017 £5.95
M&G Inc. Inv. Tst. Package Units 1.3875p
Do. Geared Units 1.3875p
Do. Inc. 1.3875p
Thorn EMI ADR $0.5045
Wells Fargo $0.50

■ WEDNESDAY OCTOBER 21
Anglia Bldg. Society Fltg. Rate Nts. Jan 1998 £131.97
Argyll Group $4\frac{1}{2}$% Cv. Bd. 2002 £45.88
Bank of New York O'seas Fin. Gtd. Fltg. Rate Sb. Nts. Jan 1996 $134.17
Barclays Und. Fltg. Rate Prim. Cap. Nts. Ser.3 £6716.19
B.B.L. Int. Gtd. Fltg. Rate *Nts. 1999 $127.08*
Candover Invs. 3.75p
Citicorp O'seas Fin. Gtd. Fltg. Rate Nts. 1982 $84.65
Commonwealth Bank of Australia Gtd. Und. Cap. Nts. $219.22
Coronation Syndicate R0.03
Kingston Oil & Gas 1p
Latin American Extra Yield Fd. $0.31
Leeds Permanent Bldg. Society Fltg. Rate Nts. 1994 £132.28
Malaysia Fltg. Rate Nts. 2015 $266.89
Mid Wynd Int. Inv. 3.6p
Murray Inc. Trust 4p
NatWest Bank Und. Var. Rate Nts. ($100,000.0) $1082.92
Nationwide Bldg. Society Fltg. Rate Nts. 1996 £131.65
Northern Rock Bldg. Society Fltg. Rate Nts. 1995 £131.97
Okobank Osuuspankkien Keskuspankki Var. Rate Sb. Nts. 2000 $103.5
Porvair 1.2p
3i Grp. Fltg. Rate Nts. 1994 £131.97
TSB 5.3125p
Tweefontein Utd. Colls. R0.62
Wilson (Connolly) 1.27p
Woolwich Bldg. Society Fltg. Rate Nts. 1993 £263.93

■ THURSDAY OCTOBER 22
Adscene 2.5p
Britannia Bldg. Society Fltg. Rate Sb. Nts. 2005 £27571.72
Burnfield 1.65p
Foreign & Col. High Inc. 1.32p
Freeman 2p
Home Counties News 2.75p
INVESCO MIM 1p
Mitsubishi Cap. Gtd. Dual Basis Bd. 2000 (A Bd.) $2803.13
Do. (B) $2579.51
Do. (C) $2339.93
Municipality Fin. $9\frac{1}{8}$% Gtd. Nts. *1996 ECU91.25*
New Throgmorton Tst. 1.5p
Serco 4.5p
Taylor Nelson 0.1p
WSP Hldgs. 1.1p
Wholesale Fittings 8.47p
Woolwich Bldg. Society Fltg. Rate Nts. 1996 ECU284.94

■ FRIDAY OCTOBER 23
Avonmore Foods Ir1.45p
Bank of China Fltg. Rate Nts. 1992 $225.57
Black (Peter) 2.17p
Brammer 4.5p
British-Borneo Pet. 2.667p
British Mohair 1.4p
BZW Convertible Tst. 3.3p
Church 3p
CPC Intl. $0.30
Cray Elect. 0.5p
English & Caledonian 2.5p
Fleming Emerging Mkts. Inv. 1.2p
Hall Eng. 3.3p
Holt (Joseph) 10p
Leumi Int. Invs. Gtd. Fltg. Rate Nts. 1998 $115.96
Matthews (Bernard) 1p
National Power ADR $1.542
Nat West Fin. Gtd. Fltg. Rate *Cap. Nts. 2005 $222.40*
Norsk Hydro $8\frac{3}{4}$% Bd 2001 $87.50
Perkins Foods 1.7p
Queens Moat Houses 1.395p
Scottish Power 6.75p
Second Alliance Tst. 24.5p
Do. $4\frac{1}{2}$% Cm. Pf. £1.575
Sedgwick 3p
Smith (W.H.) A 9.1p
Do. B 1.82p
TT Group 2.4p
USDC Inv. Tst. 1.25p
Vektra Corp R0.06
Woolwich Bldg. Society Fltg. Rate Nts. 1995 £131.65

■ SUNDAY OCTOBER 25
Bankers Tst. New York $0.70
City of Manchester 11.5% Rd. 2007 £5.75
Conversion $9\frac{1}{2}$% 2004 £4.75

PARLIAMENTARY DIARY

■ TODAY
Commons: Second Reading of the prisoners and criminal proceedings (Scotland) bill.
Lords: British Coal and British Rail transfer bill, committee stage.

■ TOMORROW
Commons: Remaining stages of the Cardiff Bay barrage bill.
Lords: Boundary Commission bill committee stage.
Committee: Social Security. Subject, operation of pension funds. Witnesses, Lord Williams and Lord Donoghue, 10.30am.

■ WEDNESDAY
Commons: Debate on British Coal
Lords: Debates on water industry and national security policy, committee stage of gas (exempt supplies) bill.
Committees: Scottish *Affairs. Subject, Scottish* transport. Witnesses, Scottish Office and Transport Department officials, 10.30am. Trade and Industry. Subject, reorganisation of DTI. Witness, Mr Michael Heseltine, president of board of trade, 10.45am. Defence. Subject, defence estimates 1992. Witnesses, Ministry of Defence officials, 10.50am and 4.15pm. Employment. Subject, work of employment department. Witness, Mrs Gillian Shephard, employment secretary, *4.15pm. Health. Subject, EC* directive on tobacco advertising. Witnesses, Tobacco Advisory Council and British Medical Association, 5pm.

■ THURSDAY
Commons: Debate on the white paper on the "health of the nation".
Lords: River Humber (Upper Burcom cooling works) bill, *third reading. Report stages* of maintainence orders (reciprocal enforcement) bill and Civil Service (management functions) bill. Debate on High Court judges.
Committees: Social Security. Subject, operation of pension funds. Witnesses, representatives of Buchler Phillips & Co, 10.30am. Defence. Subject, defence estimates. Witnesses, MoD officials, 4.15pm.

■ FRIDAY
Commons: Debate on the policing of London.

PEOPLE

Spray flies at North West Water

North West Water, the UK's second largest water company, has lost its group finance director in the same week that it issued a "counter-notice" to Ofwat, challenging the industry regulator's request for limits on price increases.

However, the company, which refuses to elaborate on the circumstances surrounding the departure of Steve McAdam last Wednesday after just 10 months at the utility, indicates the two events are not connected. Bob Ferguson, formerly finance director of the core utility North West Water Limited, and since the turn of the year its deputy managing director, steps into McAdam's shoes.

This is yet another change within the industry which has suffered a surprisingly high degree of turnover on its post privatisation boards, particularly among finance directors – much more so for instance than have the regional electricity companies.

North West Water, like many others in its sector, had elected to bring in an appointee from outside the industry – McAdam had previously been at Hewlett Packard in the UK, before he joined at the beginning of the year on the retirement of Archie Ramsay.

"Steve did not fit the team. Obviously the company has decided to go back to a safe pair of hands. They [the counter-notice and the resignation] just came to a head in the same week, but they were entirely unrelated" is all Ferguson is prepared to say.

With the company since 1974, Ferguson, 50, had been perceived by many as Ramsay's natural successor. But he makes out that he was not disappointed to miss out on the group finance job last time around. "I had an extremely interesting job as deputy managing director," he contends.

The City has been additionally puzzled that, whereas McAdam initially devoted a lot of time to investor relations, that role in the last month or two appeared to have been largely assumed by Alan Dean, group business development director and an erstwhile Rothschild director. "Both Alan and I will play a prominent role in investors relations," says Ferguson, but he acknowledges that the division of responsibilities is "not totally worked out" yet.

Non-executives

■ **Richard Mansell-Jones** as chairman at BROWN, SHIPLEY.
■ **James Pawsey MP** at RANELAGH.
■ **Anthony Haywood** at UNITED ENERGY having ceased to be executive technical director.
■ **John York**, former ceo of European Vinyls Corporation, at MARLEY.
■ ***Tom Brown**, md of Fenner,* at DALEPAK FOODS.
■ **Hamish Donaldson**, former chief executive of Hill Samuel, at The LINES PARTNERSHIP.
■ **Tec Wilkinson**, chairman and chief executive of Blagden Industries, at BROMSGROVE INDUSTRIES.
■ **John Entwistle**, chairman of the Liverpool Chamber of Commerce and Industry, at RATHBONE BROTHERS.
■ **David King**, retiring chairman of SmithKline Beecham Consumer Brands UK, as chairman, and **Mike O'Brien**, co-founder of Catalina, at CATALINA ELECTRONIC MARKETING.
■ **Karl-Gustav Ratjen**, former chairman of Metallgesellschaft, *as chairman of* GE POWER SYSTEMS EUROPE.
■ **Thomas Hedderson** at GIBBS MEW.
■ **Ian Munro**, former md of Radius Professional, at RADIUS.
■ **James Kerr-Muir**, finance director of Kingfisher, at GRASEBY; Ken Cook and Ron Howard have retired.
■ **Adrian Davies**, principal of Trussler Davies Associates, as chairman at RENLON GROUP.

■ Kvaerner Govan, the Glasgow shipyard which is part of Kvaerner, the Norwegian engineering, shipping and shipbuilding group, is losing Steinar Dragebo, who has been chief executive since 1989.

Dragebo will become vice-president of shipbuilding at Kvaerner's head office in Oslo and will initially manage a £200m investment programme at Kvaerner's recently acquired Warnowwerft yard in Germany.

Dragebo, 45, who achieved big increases in productivity and won significant new orders for the former British Shipbuilders yard at Govan, is replaced by Kjell Mikalsen, 52, who currently runs Kvaerner Kleven Floro, Kvaerner's specialist shipbuilder on the west coast of Norway.

Sali's Strong man

Little more than a year after William Strong arrived in London to head Salomon Brothers' European investment banking business, his empire has doubled in size. The 40-year-old Strong, a former co-head of the firm's New York mergers and acquisitions department, has been put in charge of all investment banking business outside the US.

It is a newly created job. In the past different regions have reported to different people and Strong says that the new structure reflects the growing demand of Salomon's global clients for a single point of contact.

Salomon is still best known for its trading and market-making skills but Strong's appointment is another sign that the firm is intent on significantly expanding its international investment banking business which takes in capital raising, corporate finance, mergers and acquisitions and advisory work.

Strong, who will continue to be London-based and have a team of around 200 professionals reporting to him, has taken over responsibility for all the firm's international investment banking functions and offices in Asia, Australia, and Canada as well as his old business in Europe. New York-based groups covering Latin America, sovereign governments and development banks will also report to Strong. He in turn will report to Richard Barrett and Leo Higdon in New York who run investment banking worldwide.

Strong took charge of Salomon's European investment banking business after Ron Freeman left to head the merchant banking operation of the newly-created European Bank for Reconstruction and Development.

Since he arrived in London, Strong has set up a worldwide privatisation practice, headed by Francis Maude, the former Treasury minister who lost his seat in the last election, and established a specialist group which advises on infrastructure projects.

From Granada to Meridian

Malcolm Wall, sales director of Granada Television, has been appointed deputy chief executive of Meridian Television, the new ITV company for the south of England.

Wall is also the current chairman of the ITV Association's marketing committee.

The ITV executive was one of those considered in the running for the chief executive's job at Granada following the departure of Andrew Quinn to run the ITV central network.

The job went instead to Charles Allen, a Granada group executive.

Wall, who will work with Meridian's chief executive Roger Laughton, says he regards his new job as "a terrific opportunity to get involved in a new company building a broadcasting business from scratch."

Meridian goes on the air at the beginning of next year.

The present deputy sales director of Granada, Michael Desmond, has been promoted to the position of sales director and will join the board of Granada Television.

Granada says that Desmond's appointment confirms the role he has assumed for the past 18 months of managing the sales operation. This enabled Wall to involve himself in general television industry issues, the company adds.

MANAGEMENT

Christopher Lorenz says the fashionable concept of the 'information-based organisation' is largely a fantasy

From feudalism to federalism

Does your company suffer from anarchy, feudalism or utopianism in the way it deals with information? If so, you need to replace the offending regime with one which is better at managing the politics of information: either a monarchy or, best of all, a federation.

You can determine your company's position on this spectrum quite easily. If small departments and even individuals run their own databases, and have a free hand in deciding what information they will give to whom, you have anarchy.

If much larger business units or divisions hoard information and fail to communicate properly with each other, and even with head office, you are a victim of feudalism. If the company is riddled with blind faith in some technological paradise in which information flows around freely, you have utopianism.

On the other hand, if information management is dictated by the chief executive, you are part of a monarchy. And if the nature and availability of information is negotiated between the various potentially warring parties, you are in the best state of all, a federation.

This categorisation of "information politics", plus advice on how to handle them, comes courtesy of three American business academics, Thomas Davenport, Robert Eccles and Laurence Prusack, in the autumn 1992 issue of *Sloan Management Review*, published by the Massachusetts Institute of Technology.

The trio is thoroughly cynical about the impact that information technology has had – or failed to have – on companies over the past decade. The "information-based organisation" may have been one of the most popular management concepts of the 1980s, yet the academics claim that today it is largely a fantasy. "The rhetoric and technology of information management have far outpaced the ability of people to understand and agree on what information they need, and then to show it," they add.

Having studied the attempts of 25 companies to create entire information-based organisations, or even just to implement significant information management initiatives, the researchers conclude that many of their efforts have failed, or are on the path to failure.

The primary reason for failure was that companies did not manage the politics of information. Either the initiative was inappropriate for the company's overall political culture, or politics were treated as peripheral, rather than integral to the initiative. Contrary to what many other academics have forecast, Davenport, Eccles and Prusack say that politics come increasingly into play as information and knowledge become more important to a company. "In the most information-oriented companies we studied, people were least likely to share information freely ... When information is the primary unit of organisational currency, we should not expect its owners to give it away."

Of the 25 companies studied, about half suffered from information feudalism, almost a third from utopianism, and a handful from anarchy. The positive approaches of monarchy and federalism were each practised by slightly fewer companies than was feudalism. Most practised more than one approach, either to hedge their bets, or because they had not yet converted fully to federalism.

Explaining why federalism is generally more effective than monarchy, the academics say it recognises the importance of information politics, rather than trying to suppress them. IBM, the computer giant, has been trying to shift in this direction, although it is finding the complicated negotiation process extremely time consuming.

Federalism is also more flexible than monarchy, say the academics, because it encourages both autonomy and co-ordination in the management of information, depending which is most appropriate for the particular requirements or circumstances of the situation.

Among a series of tips on how to manage information politics within a federal approach, the academics say that the selection of the right "information politicians" is vital. This role – not as the owner of information but as the manager with primary responsibility for facilitating its effective use – is still up for grabs in many companies, despite the widespread existence of people with titles such as "chief information officer".

Until recently, most chief information officers were selected for technical acumen rather than political skills. But few embarked on initiatives to improve the way that information – not just information technology – is used and managed. Only a few information systems heads "have the political clout to persuade powerful barons to share their information for the good of the entire kingdom", the academics report. The same applies to chief financial officers.

At more far-sighted companies such as IBM, Xerox, Kodak and Merrill Lynch, recent corporate information heads have been fast-track executives with records of managing important non-technical aspects of the business. Such people have a better chance than most of identifying and managing the politics of information, the academics conclude. Until this is done, companies will not move into the "information age", they say.

"No amount of data modelling, no number of relational databases, and no invocation of 'the information-based organisation' will bring about a new political order of information," say Davenport, Eccles and Prusack. Rather, "it will take what politics always take: negotiation, influence-exercising, backroom deals, coalition-building, and occasionally even war".

Construction groups shaken to the foundations

Andrew Taylor reports on the rush to rebuild an industry, hard hit by the recession

Like the crew of a sinking ship, Britain's recession-racked construction companies are busy hurling overboard anything they do not need to keep themselves afloat.

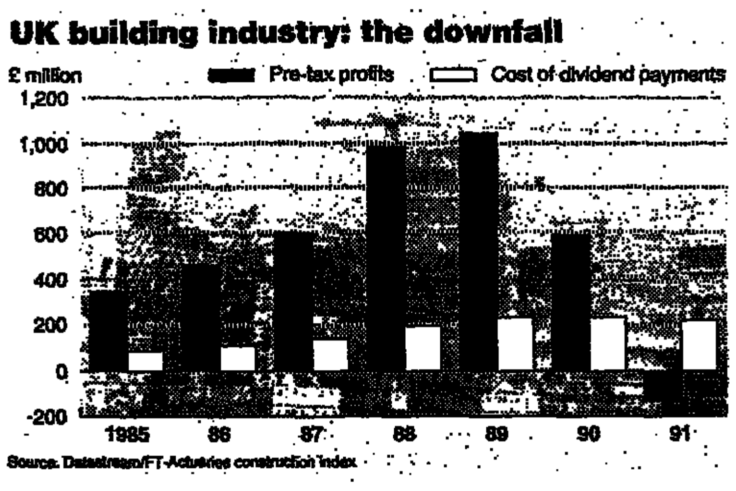
Jobs, plants and entire businesses are being jettisoned in a desperate battle for survival as executives struggle to raise cash to lighten debt-laden balance sheets.

Overheads, representing hundreds of thousands of jobs, have been chopped, excess capacity shut down and unwanted buildings and non-core businesses sold, often at a loss. As a result, businesses may look very different when eventually they reach calmer waters.

For some it will mean returning to the kind of operations they ran at the end of the 1970s when profits largely came from building and civil engineering contracting.

Gone, or much reduced, will be the large speculative house building and commercial property businesses into which contractors expanded during the 1980s – and which caused them so much trouble when the recession struck. Also, up for sale are many of the non-construction activities acquired to provide shelter against a downturn in building and property markets.

UK building industry: the downfall



Source: Datastream/FT-Actuaries construction index

As well as raising cash, managers are reshaping their businesses to take account of changed economic circumstances.

Tarmac, Britain's biggest housebuilder, plans by the end of next year to have reduced capital employed in its housing operations to just £300m from a peak of £800m three years ago. The company, also a building materials producer, is pulling out of speculative commercial property development altogether.

Neville Simms, chief executive, says the group is seeking to raise a total of more than £300m from disposals.

Construction companies, also, are reducing the amount of money tied up in expensive housing land. Sir Lawrie Barratt, brought out of retirement last year to rescue Barratt Development, Britain's third largest housebuilder, says the company will in future hold about two years' supply of land, instead of three years' as is customary in the industry.

Sir Lawrie has made substantial savings by cutting the company's stock of unsold and part-exchange houses and by sale and leaseback of show homes.

Costain Group provides one of the best examples of a UK contractor which radically altered the mix of its businesses during the 1980s, subsequently fell on hard times, and is now trying to regroup around its original construction business.

Building and civil engineering in 1980 generated more than three quarters of Costain's profits. By 1988 its share of record pre-tax profits had shrunk to a fifth. The bulk of earnings came from house-building, commercial property and coal mining operations which Costain had built up during the decade.

Four years later the group has been forced to sell its commercial property portfolio for £101m. House building, which in 1988 built almost 2,000 houses, produced just 400 homes last year. And, this summer Costain announced plans to sell its profitable Australian coal mining business.

John Laing, currently constructing a £300m privately-financed toll bridge across the River Severn, plans to take £20m a year out of its house-building operations over the next three years. Martin Laing, chairman, says the company will return to its roots and concentrate on traditional building and civil engineering.

"The advantage of contracting for large companies," according to Laing, "is that overheads are very low, most of actual work is done by others, and cash is paid up front, so that main contractors can earn interest on it before passing it on to the sub-contractors."

The result is a low margin business with a strong cash flow. Earnings and dividends, as a result, are unlikely to recapture their previous heights even when the economy recovers.

For the moment, some contractors are taking on work at a loss just to keep cash flowing to pay wages and stay in business.

More company failures are expected by the industry as opportunities to win work continue to shrink.

The Building Employers Confederation says that by the end of this year 450,000 construction jobs will have disappeared since summer 1989. This represents 580 jobs lost for each working day.

Prices charged by construction companies have fallen by up to 30 per cent since the late 1980s, according a to survey of contractors, their customers and construction professionals conducted this summer by the Financial Times and EC Harris international cost consultants.

The outlook for the industry remains stormy.

ARTS

Architecture/**Colin Amery**

Crucial times for St Paul's

An important event happened in the City of London last week. The proposals for the redevelopment of Paternoster Square, that crucial area around St. Paul's Cathedral, have received the approval, by 18 votes to one, of the City of London Planning and Communications Committee.

Later this week the plans go before the City's Court of Common Council, which is likely to accept the firm recommendations of the officials and the Planning Committee and give the proposals of the long suffering Paternoster Consortium its blessing.

We all know what Robert Burns had to say about the best laid plans of mice and men, and indeed there is one last hurdle to be jumped before this long saga ends and building can commence. The redevelopment of the whole area around Paternoster Square comes under the jurisdiction of something called "Article 14", a device that effectively gives the last word to the Secretary of State for the Environment, Michael Howard. While the City of London can make a resolution to grant planning consent it cannot, in this case, actually give consent. Only the Minister can give the final go ahead.

There is a perfectly sensible reason for this. It has long been felt by many people, not least HRH The Prince of Wales, that this important site should be looked at as a whole. As it is not entirely in one ownership, ensuring sympathetic approaches is both difficult and important.

The Paternoster Consortium is made up of the British company, Greycoat Estates; the Japanese group, Mitsubishi Estates; and the American property company, Park Tower Realty. The Consortium owns 4.2 acres of the 7 acre site to the north east of St. Paul's, for which it paid £149m in 1989.

The other major parts of the site are owned by Nuclear Electric, which owns the hideous tower Sudbury House, to be demolished; and Standard Life, which owns Juxon House, in front of the cathedral, also to be demolished. "Article 14" is being used to help the minister to ensure that all the owners reach agreement on the relationships between their sites. The architects for the replacement building for Sudbury House are Rolfe Judd and Partners and for Juxon House, William Whitfield.

The Minister is a practical planning man who will see that there is now almost total unanimity on the future of this crucial site. He will surely note the sensible words of the City of London planning officer, Mr Peter Rees, who has said that "architecture is a matter of taste", but that this scheme is "the appropriate one for the site".

The public like the scheme and have said so at recent public exhibitions. Patient diplomacy has ensured agreement between the three major land owners. There is little point in reopening the architectural debate, or a lengthy, expensive public inquiry which will only succeed in making London look as though it is the one city in Europe that cannot make up its mind about the future of its major development sites.

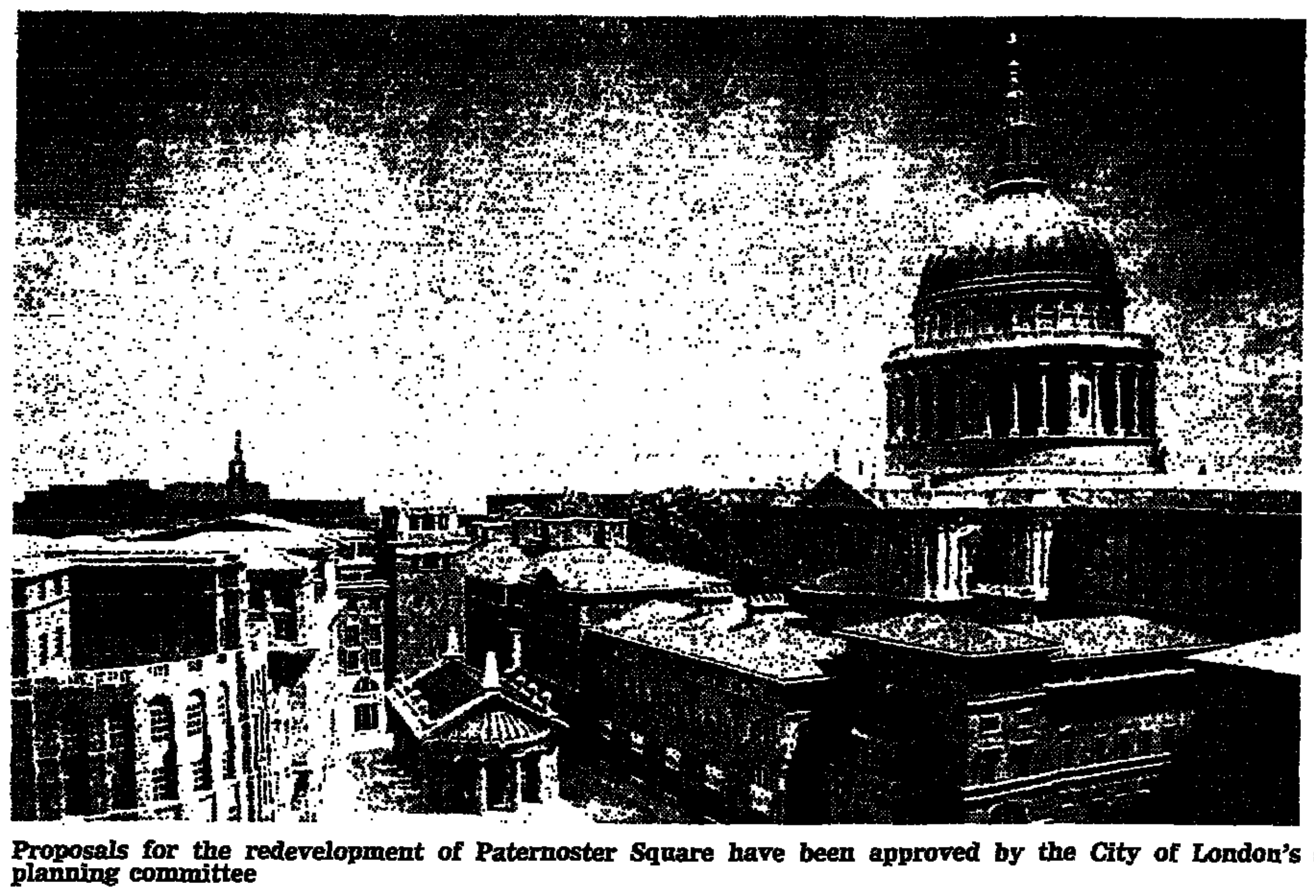
The one tiresome body which is apparently determined to throw its ineffectual weight about is the powerless but noisy Royal Fine Art Commission. It is difficult to take its views seriously because they seem to be based upon architectural prejudice and the festering disappointment of some members of the Commission not successful in earlier competitive plans for the same site.

In a deeply subjective letter, of a kind that has become all to familiar when a traditional style of building is proposed for a prominent site in the capital, the present chairman of the commission says, "It believes that a 'classical' scheme like Paternoster Square should be a genuine re-interpretation of Classicism in terms of our own time, the 1990's.

It is Mr William Whitfield's early design for Juxon House which in the Commission's view appears to be working towards a more contemporary and appropriate solution." Mr Whitfield is, of course, a member of the Royal Fine Art Commission who has designed some fine buildings, but surely he is too closely involved in this scheme to be held up as the ideal architect.

The developers naturally hope that the Minister will not be swayed by such a partial letter that also demands a long winded public inquiry. Mr Howard is very well equipped to see that what matters for London is not the style of the architecture, but the importance of making progress on a prominent site that will not be developed, whatever happens, until almost the end of the decade.

There is a lot to be said for the agreeableness of the present plans. There is a lot to be said for the Minister listening to the City of London and the public and ignoring the pontifications of a partial body, the Royal Fine Art Commission, that appears to represent the views of a very small rump of architects. May Paternoster progress – with all speed as an important symbol of the recovery of the centre of London as a key European city.



Proposals for the redevelopment of Paternoster Square have been approved by the City of London's planning committee

Opera/**David Murray**

Bergonzi's Farewell

NO ARTIST alive embodies what is sublime in Italian opera more truly than the veteran tenor Carlo Bergonzi; but many of us had not realised this until his farewell recital on Friday at Covent Garden. Listening to him, you are caught at once by music, words, feeling. The voice is produced with the ideal blend of tension and relaxation: both exciting and touching.

Everything sounds spontaneous, and yet each phrase is a repository of stylistic wisdom. In few artists are expression and technique so perfectly fused. And all is generous, all eloquent. This is aristocratic singing, yet Bergonzi has no jot of superiority about him. Simply, he sings like a man of the people who has been ennobled by art.

No one has ever gone to see Bergonzi act. In opera he used to be just as he still is in recital. He shifts his weight, he adjusts his clothes, he clears his throat, he stands, he delivers. This is, however, a singer we have needed to *see*, so effecting was the presence of the voice. He is always both public and private; he shows that in singing he communes both with his inner being and with us.

On Friday, no sooner did he emerge between the great red curtains than a wall of cheers greeted him. It is 30 years since he made his debut at Covent Garden, almost 40 since his London debut, and some 45 since his original stage debut (as a baritone). Since the late 1970s his appearances have been less regular, and people have tended to speak of his singing in the past tense.

Ideally accompanied by Vincenzo Scalera, he was in miraculously fresh voice – seldom sounding older than 15 or more years ago, though often even wiser. And, in a thousand ways, he showed how great an artist he has always been. True, a few notes were under pitch – but not one that was not so musically sustained that it made its effect.

A rich programme of songs and arias – Verdi, Bellini, Donizetti, Schubert, Tosti and more – had the full house caught helplessly between laughter and tears. For all who attended, this was one of the great evenings of our lives.

A standing ovation hailed his final aria, and won six encores (with further standing ovations). When he inserted "the" trill into "O sole mio," the house erupted to hear this gesture to Pavarotti and Co; but even more marvellous was how Bergonzi led us all back into the song itself, which he gave with an elegiac grandeur that harks back decades, to such tenors as Fernando de Lucia.

Whether in the arias from *Masnadieri*, *Luisa Miller* and *L'Arlesiana*, or in taradiddle like "Mamma," he made every word and phrase communicate. When will we ever hear again Verdian recitative so alert with changing emotion? His singing exemplifies a whole lexicon of untranslatable Italian terms. Simply, the recital made us appreciate his art more fully than ever before.

Opera/**Andrew Clements**

The Rake rises from the ashes

The final revival to join Glyndebourne's autumn tour is John Cox's celebrated staging of *The Rake's Progress*, designed by David Hockney. Revival is a misnomer in this case, for the original sets were nearly all destroyed in a fire. Their painstaking recreation has been overseen by Hockney, and the results seem brighter, crisper than ever. The production is once again a visual triumph, a glorious celebration of a great painter's art which enhances the work and adds to it further layers of allusion. Hogarth filtered through Hockney's own graphic techniques, just as Stravinsky's music distilled his classical models to become designer's opera in the very best sense.

In its dramatic and musical recreation too the evening is immensely rewarding. Cox's elegant, intelligent production has been revived by Aidan Lang with care and subtle understanding; its virtues seemed even more precious after suffering the inanities of the Aix *Rake* only ten weeks ago. There is nothing heavy-handed about Cox's approach, no jolts as it pans between panoramic satire and close-focussed pain; the *tours de force* of the brothel and auction scenes owe just as much to the thoughtful direction as to the virtuoso design.

Ivor Bolton conducts a vivid, scrupulously drilled account; a hint of rushing in the early numbers was soon controlled, and the rest of the score moved easily and naturally. There is fine, exuberant chorus work and a cast without notifiable weaknesses. Anne Dawson's Anne Trulove takes a determined middle path between resilient independence on the one hand and mawkish sweetness on the other; her singing is firm-toned and most accurately placed. Barry Banks's Tom began unprepossessingly but gained steadily in confidence and the flexibility of his phrasing; the Bedlam scene was movingly managed.

Steven Page's Nick Shadow is well timed and consistently sinister, a little too much the pantomime villain momentarily, though judged nicely in the end. Fiona Kimm's Baba the Turk, adorning Glyndebourne Touring's posters for many weeks now, is a gem, sung without parody and vividly acted; her farewell scene with Anne was genuinely touching.

The remainder John Hall's Trulove, Angela Hickey's Mother Goose, Andrew Yeats's Sellem are also fitted tellingly into the scheme, in which every element is perfectly weighted and postioned. The whole production is one of the highpoints of British opera in the last decade and more, and once again should been seen, savoured and saluted.

The Rake's Progress: Glyndebourne Touring Opera at Sadler's Wells. Further performances tonight, October 22 and 24, then on tour to Plymouth, Sheffield, Southampton, Manchester and Oxford

Glyndebourne's fine revival of John Cox's celebrated staging

Alastair Muir

Theatre/**Andrew St George**

Pig in a Poke

Somewhere in hell lurks a circle of theatre critics condemned to summarise the plots of Georges Feydeau's farces. Feydeau himself improvised, but stuck to this rule: "when two of my characters should under no circumstances encounter one another, I throw them together as quickly as possible." It would be hard to miss with this play. The Oxford Stage Company unlooses the Feydeau madness bykeeping to a tight adaptation byKenneth McLeish, transplanting the action to Edwardian Camberwell. This results in an evening of wickedhilarity.

An Argentinean black-pudding dealer called Pennyfeather arrives in London and is taken for an operatic tenor named Amoroso; his host, Wembley, ties him into a singing contract."Amoroso" falls in love with Wembley's wife, whom he mistakes for the wife of Wembley's friend, Oakleigh. But soon, after a flurry of crossed notes, both women believe he loves them. A mistaken anecdote leaves the husbands thinking him impotent. He then falls for Wembley's already affianced daughter.

The essence of this delightful form *makes* the plot the action, and changes it with each line. Well-plotted tragedy starts every scene as close to its end as possible, but well-plotted farce never finishes anything. Feydeau adds linguistic twists: "I'll accompany you" says a pianist to "Amoroso", who replies, "where?"

Feydeau also knew, with Dr Johnson, that men in hope believe improbabilities. The less like a tenor "Amoroso" sounds, the more latitude he gets. An unlikely "voice cure" which is *really* a love message seems to work for a while, but you don't need David Hume to tell you about the pitfalls of causality.

Mark Dornford-May, the versatile director, maintains surefooted contact with Feydeau's sheer and vertiginous terrain. Claudia Mayer's conservatory set allows space enough for confusion. Paul Greenwood and Robin Kermode as Wembley and Pennyfeather catch the pulse of the plot, quickfire and quidditative. The women, too, are excellent, with Linda Spurrier and Tessa Wyatt superb as unacknowledged rivals for Pennyfeather's love.

The play moves at autobahn speed. The best lines fall to the fiance (Grant Parsons) of Wembley's daughter (Tamsin Olivier). Rejected in love, he turns to Wembley, "Then I ask for the hand of your younger daughter" – "I haven't got one" – "I'll wait."

On tour to: Oxford, Worthing, Cambridge, Poole, Winchester, Bury St Edmunds

Concert/**Richard Fairman**

Kodály's Háry János

Although rarely seen outside Hungary, Kodály's *Háry János* is still a familiar face in his home country. A traveller to Budapest may come across the opera at a Sunday matinee in the city's second opera-house, as I did. If so, he should be prepared for a noisy outing, as the theatre on my visit was filled with enthusiastic children.

There were not many smiling young faces in the audience at the Royal Festival Hall on Thursday; nor, sadly, as many faces of any kind as there should have been. This was a disappointing audience for an imaginative programme. The Royal Philharmonic Orchestra does not have a record as being the most adventurous London orchestra. It could face a hefty loss on a concert demanding so large an orchestra, chorus and soloists.

This was doubly to be regretted, as Kodály's music was given splendid advocacy. The orchestral numbers of the score, mostly marches and interludes of swaggering panache, all Kodály's own invention, are well-known from the popular suite. It is less widely recognised that the vocal and choral numbers, which the composer took from Hungarian folk music, are just as winning in a different way – magical, comic, sentimental by turn.

This concert gave us over half the score. In fact, continuity is not especially important outside the opera-house. The crucial thing is that the performers should bring to the music the same vivid colours that light up the stage in Budapest. The RPO had a good line-up with two Hungarians, Tamara Takács and the fine baritone Károly Szilágyi, as the main soloists and Adam Fischer the dynamic conductor.

The music makes good entertainment in the concert-hall, enough to make one wonder if the inimitably Hungarian *Háry János* would work here as an opera. Not at the London Coliseum, as the theatre is too big for the work and its probable audience. Sadler's Wells would be more the size and then it would have to be in English – as *János Háry* presumably, if we are to get the hero's name round the right way.

A novelty of a different kind preceded it. This was Mendelssohn's Violin Concerto according to the composer's manuscript, already heard in London in 1988, but now with a shorter version of the first cadenza incorporated. There are few vital differences, but having some extended passages down an octave does give the concerto a calmer, more lyrical aspect. Luigi Alberto Bianchi was the soloist.

Sponsored by Candle

INTERNATIONAL ARTS GUIDE

■ BERLIN

OPERA/BALLET

Staatsoper unter den Linden The main event of the week is Daniel Barenboim's house operatic debut with Parsifal on Sun, in a new staging by Harry Kupfer. The cast includes Poul Elming, Waltraud Meier, John Tomlinson and Günter von Kannen (repeated on Oct 28, Nov 1, 22). Wed and Fri: René Jacobs conducts Carl Heinrich Graun's 1742 opera Cleopatra e Cesare. Sat: Ariadne auf Naxos (2004 762)

Komische Oper Tonight's performance is Die Zauberflöte. Tomorrow: Prokofiev's ballet Romeo and Juliet. Wed: Così fan tutte. Thurs: Mario Venzago conducts an orchestral concert featuring works by Berio, Prokofiev and Schubert. Sat: Carmen. Sun: Die schweigsame Frau (2292 555)

Deutsche Oper Tonight's performance is the Christopher Bruce ballet Cruel Garden. Tomorrow and Fri: Le nozze di Figaro with Marie McLaughlin and Lucio Gallo. Thurs: Fidelio with René Kollo (also Oct 28). Sun: Kollo sings Tannhäuser (3410 249)

MUSIC

Schauspielhaus Hermann Prey sings German Lieder tonight in a concert by the Berlin Symphony Orchestra. Wed: Sinfonia Varsovia plays works by Rossini, Mendelssohn and Bizet. Fri: Edda Moser is soprano soloist in a Richard Strauss programme conducted by Gustav Kuhn. Sat, Sun and Mon: Eliahu Inbal conducts Berlin Symphony Orchestra in Mozart's Haffner Symphony, Liszt's Totentanz (Gerhard Oppitz) and Stravinsky's Firebird suite (2090 2156)

Philharmonie Friedrich Goldmann conducts members of the Berlin Philharmonic Orchestra on Wed in a concert of works by Schoenberg, Morton Feldman and Goldmann. Thurs: Mikhail Pletnev conducts Russian National Orchestra in works by Glinka and Tchaikovsky, with piano soloist Ivo Pogorelich. Fri, Sat and Sun morning: Neeme Järvi conducts Berlin Philharmonic in works by Pärt, Shostakovich and Franz Schmidt. Oct 29, 30, 31: Daniel Barenboim conducts BPO. Nov 4 and 6: Jessye Norman (2548 8232)

■ BUDAPEST

Tonight at Pest Concert Hall: piano recital by Evelin Borbely. Tomorrow at Academy of Music: final concert of Ruggero Ricci master course. Tomorrow, Fri and Sat at Erkel Theatre: Hansel und Gretel. Wed at Academy of Music: Ken-ichiro Kobayashi conducts Hungarian State Symphony Orchestra in works by Webern, Schumann and Saint-Saëns. Thurs at Academy of Music: Liszt anniversary concert. Fri at State Opera: Ervin Lukacs conducts a choral and orchestral concert. Sun, Mon, Tues at Academy of Music: Kobayashi conducts Brahms. Concerts begin at 19.30. Tickets available from National Philharmonic booking office, Vörösmarty ter 1, tel 117-6222. The State Opera resumes performances on Sun with a Bartók double-bill.

■ LYON

This week's concerts by the Orchestre National de Lyon at the Auditorium Maurice Ravel (Thurs, Fri, Sat) are conducted by Emmanuel Krivine, with piano soloist Martha Argerich (7860 3713)

■ MILAN

Teatro alla Scala 21.00 Yuri Temirkanov conducts the St Petersburg Philharmonic Orchestra, with violin soloist Vladimir Spivakov. Tomorrow, Wed, Thurs (also today at 15.00): Cristoforo Colombo, ballet choreographed by Alberto Mendez. Fri: Antoni Wit conducts Polish National Radio Orchestra. Sun: Cecilia Bartoli song recital, accompanied by Myung-Whun Chung. Oct 27-31: Nureyev production of The Nutcracker. Nov 23: Dmitri Hvorostovsky song recital (7200 3744)

■ NEW YORK

OPERA

Luciano Pavarotti sings in tonight's performance of Tosca at the Met (also Oct 24, 27, 31 and Nov 4). This week's repertory also includes Falstaff, Philip Glass's new opera The Voyage and Madama Butterfly. Next Mon: Semiramide (362 6000). State Theater has City Opera productions of Blitzstein's 1949 Broadway opera Regina, Die Fledermaus, Die Zauberflöte and Carmen (870 5570)

CONCERTS

Tonight and Wed in Carnegie Hall, Riccardo Muti conducts Orchestra and Chorus of La Scala Milan in Verdi's Requiem. Tomorrow: Dmitri Kitaenko conducts Frankfurt Radio Symphony Orchestra in works by Webern, Brahms and Prokofiev. Fri in Weill Recital Hall: Benjamin Luxon song recital. Nov 4: Horacio Gutierrez piano recital. Nov 16: Alicia de Larrocha (247 7800).

Tomorrow's New York Philharmonic concert in Avery Fisher Hall features Garrick Ohlsson as soloist in Grieg's Piano Concerto. Thurs, Fri morning, Sat and next Tues: Kurt Masur conducts Beethoven's three Leonore overtures and Seventh Symphony. Oct 28: Roger Norrington conducts Orchestra of St Luke's in an all-Beethoven programme. Oct 29, 30, 31, Nov 3: Tennstedt conducts Mahler's Sixth (875 5030)

■ VIENNA

MUSIC

Staatsoper Adolf Dresen's new production of Das Rheingold, conducted by Christoph von Dohnanyi, can be seen on Wed and Sun, with a cast including Robert Hale and Heinz Zednik. Tomorrow and Sat: La traviata with José Carreras. Thurs: Madama Butterfly. Fri: Minkus' ballet Don Quixote. Next Mon and Thurs: Le nozze di Figaro with Bryn Terfel and Cheryl Studer (51444 2960)

Volksoper This week's repertory includes Don Giovanni tonight with Boje Skovhus in the title role and The Merry Widow on Thurs. Next Tues: first night of new production of Gottfried von Einem's opera Dantons Tod (51444 3318)

Kammeroper The company marks the start of its 40th season with a production of Henze's English Cat opening next Mon (513 6072)

CONCERTS

Musikverein Thomas Hampson gives a song recital tonight at 19.30 (505 8190). Tomorrow: Marek Janowski conducts the Orchestre Philharmonique de Radio France, repeated on Wed at the Konzerthaus (505 6356). Wed, Thurs, Fri and Sun morning: Mitsuko Uchida plays Mozart with the Vienna Symphony Orchestra conducted by Vaclav Neumann. Sat and Sun in Brahms-Saal: London Sinfonietta plays music by Xenakis, Henze, Dallapiccola and Birtwistle. Sun morning: Andras Schiff plays Schubert. Oct 28: Frans Brüggen conducts Orchestra of the 18th century (505 8190)

Konzerthaus This week's concerts include a piano recital by Elena Bashkirova on Wed, a recital by the Hagen Quartet on Thurs and a concert performance of Giordano's Fedora on Sun with Renata Scotto in the title role. Vienna's annual contemporary music festival, Wien Modern, opens next week with special focus on Dallapiccola, Henze, Xenakis and Schwertsik. Oct 30: Gianluigi Gelmetti conducts Henze's Seventh Symphony. Oct 31: Claudio Abbado conducts Gustav Mahler Jugendorchester (712 1211)

THEATRE

A new production of Edward Bond's The Sea can be seen at the Volkstheater tonight and Fri (932776). Elisabeth, a new musical about the child bride of Emperor Franz Joseph, is running daily except Wed at the Theater an der Wien (588 30265). This week's repertory at the Burgtheater and Akademietheater includes Claus Peymann's production of Macbeth, Dürrenmatt's The Visit and Sean O'Casey's The End from the Beginning (51444 2218)

● Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513

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0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
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Super Channel
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Monday October 19 1992

Mr Major's medium term

MR JOHN Major faces the most critical week of his political career. Having lost overboard his foreign and economic policies in the ERM storms of mid-September, his plans to close over half of Britain's coal industry have brought something close to mutiny. This has perhaps less to do with the plans themselves than with the fact that they come at the depth of a recession to which people can see no end.

He now faces calls not only to remove his chancellor, but also his trade and industry secretary, Mr Michael Heseltine, whose department is responsible for coal. Something close to hysteria has swept through the conservative shires, and normally loyal supporters are openly querying his ability to lead the government.

Amid this clamour, it is worth recalling the judgments the Conservative party and the country made in electing Mr Major to Number 10 Downing Street only six months ago.

To his party, Mr Major promised to heal as best he could the schism over Europe, to scrap his predecessor's disastrous poll tax and to continue the medium-term quest for a low-inflation base for a competitive British economy. To the country, he offered a less divisive tone than Mrs Thatcher, a renewed emphasis upon the quality of public services and a low-tax alternative to a Labour party which was still not trusted.

Above all, Mr Major acquired a striking personal popularity, based upon three aspects of his "honest John" character: an instinctive aversion to the more rabid ideologies; a doggedness to see through calmly a difficult task; and a low-key, plain-speaking manner which proclaimed integrity and realism. These qualities were especially admired during the Gulf war and the election campaign itself.

It was clear from Mr Major's press conference in Birmingham after the European summit last Friday that this is the style of leadership he intends to continue to offer.

Complex task

He deeply regrets the pain caused by the pit closures, but there is no medium term future in piling up millions of tons of unsaleable coal at the pithead. The prospects for the economy remain difficult, especially given deteriorating conditions in Germany and Japan, but there is no medium-term future in attempting to dash for growth, only to reel backwards into stagflation. On the EC, Britain must remain an important member while using its influence to ensure that the Community neither recklessly pursues political and economic ambitions beyond its means, nor turns its back on the rest of the world.

When it comes to the coal industry, Mr Major is right to assert that the British economy cannot afford, medium term, to carry the costs of uncompetitive energy. If Germany thinks it can, then let it continue doing so as long as EC law permits. It is, of course, true that the pressures on coal have been intensified by a mishandled privatisation which created an inadequately competitive electricity industry.

But it is also worth remembering that it has taken all the privatised utilities and their regulators a period of years to feel their way towards more efficient arrangements, a complex task which is far from complete; in British Telecom alone, this process has cost 80,000 jobs since privatisation. Coal miners have a unique place in the affections of the British people and many of their communities are uniquely exposed to a single industry. This is why there is such widespread anger at the government's failure to justify more persuasively the speed of the cuts, which may even now have to be spread over a longer period. But even emotion fanned by the moral indignation of bishops cannot alter the laws of economics.

Sense of direction

The question is: can Mr Major meet the challenges he faces? There is no doubt that his credibility has been severely damaged. The manner of Britain's exit from the ERM and the memory of his chancellor's promises of imminent economic recovery have combined with the fear or experience of unemployment to make the British people doubt that Mr Major can deliver.

Partly this is a question of political skills and the prime minister needs, as he did during the election campaign, to take more of the burden of persuasion upon himself. But the central question is whether Mr Major has what it takes to lead; to weld a fractious party which has been so long in power into an effective force with a clear idea of what it wants for the future; to put an end to the feeling that his government is merely responding to events; to demonstrate that he has a sense of direction.

To this end, he must now recognise that having lost the credibility of the ERM, the country requires a medium-term strategy for the economy in which it can learn to believe. So far, his unwillingness even to acknowledge the debate about institutional reform of the mechanisms for setting monetary policy suggests that he is not truly engaged in the thinking needed to support his stated political and economic objectives. Such a strategy also implies a clear view on the balance between fiscal and monetary policy, involving lower interest rates and, if necessary, higher taxes.

That we are still so far from a credible economic package of this kind is Mr Major's most grievous failure in the last month. If he can show that he is capable of filling this vacuum firmly and swiftly, he will deserve support. His backbenchers should then recognise that the accomplishment of this task is more important than anything else.

Crashes, big and small

FIVE years to the day after Black Monday, the 1987 stock market crash looks a much less awesome affair than it did at the time. The colour black, as applied to days of the week, has been somewhat devalued by subsequent events; the plunge in property values and the 1990s' slow-motion collapse in Japanese shares have made 1987 look like a sideshow.

Yet the sheer speed of the 1987 market slide, in which equity prices across the world lost a quarter of their value in a day and a half, continues to fascinate.

Looking back, it is easy to forget the climate of the time: this was a feel-good decade for investors. The Reagan administration brought a reassertion of American influence in the world, together with an overwhelming fiscal boost to the global economy. An ideological commitment to markets was gaining ground against the interventionist orthodoxy of previous years. Deregulation, privatisation and falling top marginal tax rates were *à la mode*.

A protracted economic recovery was marked by a significant boost in profits in many countries. Commodity prices were weak. Yet the transformation from boom to bubble arose, as always, from monetary policy.

Monetary conditions in the developed world became more relaxed in mid-decade. Then came the Louvre Accord in February 1987 and the co-operative attempt to prop up the dollar. The result was a flood of liquidity into the markets. British equities, for example, rose nearly 50 per cent in the 12 months before the crash.

If any single event was responsible for changing market perceptions, it was the row between the US and Germany over monetary policy, which coincided with appalling US trade figures. It suddenly looked as though the US was about to embark on more restrictive policies.

The speed of the subsequent market adjustment no doubt reflected the enormously increased importance of professional investors since 1929. But the more important point was that the markets were right. Within months it was clear that demand in the developed world had been accelerating at an unsustainable rate. Within a couple of years the economic gains of the decade looked less substantial. Increased consumption in the Anglo-Saxon economies had been financed by a run-down of household savings and an accumulation of debt. The US remained prey to a long-run productivity crisis. Japan, the world's second largest economy, had continued to invest at a rate appropriate to a developing country, to nugatory effect. Banks everywhere were fragile.

Central bankers were unquestionably justified in pumping short-term liquidity into the markets and arm-twisting banks to stop calling in collateral as prices plunged. The mistake, most notably in Britain and Japan, was to keep monetary policy loose for too long after the event, thereby giving leverage a final fling. The wider message might be that markets are better at acknowledging their mistakes than ministers. The size of the present financial hangover bears eloquent testimony to that.

The case for targeting pensions and child benefits at the most needy is becoming harder to resist, says **John Willman**

Means to a public spending end

As the government struggles to control the UK's growing public expenditure, increasing attention is focusing on the £76bn in next year's budget for social security. At more than 30 per cent of the total, it is the largest single item of spending, and more than double the amount spent on education, health or defence.

Yet the scope for scaling back spending on social security is limited by pledges on the state pension and child benefit in the Conservative election manifesto. This promised that the two benefits, which together account for half the social security budget, would not only continue to be paid on the current basis but would also be increased each year in line with inflation.

The logic of this has been challenged by some ministers and advisers. The state pension and child benefit are both universal benefits – flat-rate payments made to all who qualify regardless of need. Why continue to pay these expensive benefits to rich and poor alike, the argument goes, while slashing capital programmes which might enhance the long-term economic prospects of the country?

Earlier this month, Mr Peter Lilley, the social security secretary, told the Tory party conference that he was prepared to see greater targeting "to focus benefits on the most needy". However, it appears that what Mr Lilley has in mind is means-testing invalidity benefit, paid to 1.4m long-term sick and disabled people, rather than the more expensive pension and child benefit.

Yet there could be significant savings if the government were to end the universal payment of the state pension. This is a flat-rate payment of £54 a week for single people, £87 for a married couple, given to all pensioners who paid enough national insurance contributions during their working life.

The cost of paying the state pension to almost all pensioners is enormous; at £27bn next year, it accounts for more than 10 per cent of public expenditure. Yet despite the cost, it is inadequate for many pensioners to live on.

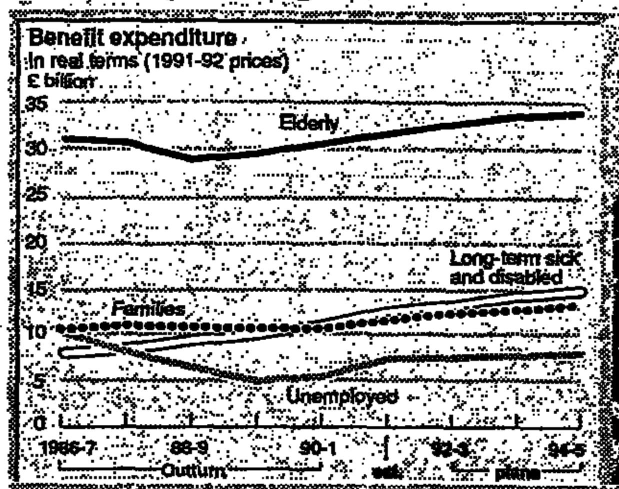
For example, 1.4m pensioners need to top up their state pension with means-tested income support. Another 2m qualify for housing benefit to help with rent and 3m depend on community charge benefit to pay some or all of their poll tax. Almost half of all pensioners still receive means-tested benefits to top up their state pension.

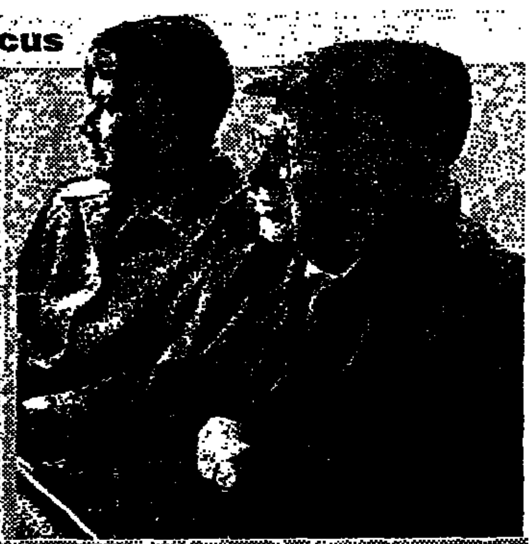
However, the number who depend on income support has been falling, according to Mr Andrew Dilnot, director of the Institute for Fiscal Studies. "The idea that all pensioners are living in dire poverty is outdated," he says.

One in 20 pensioner households is in the top 20 per cent of UK households in terms of disposable income and one in eight is in the top 40 per cent. Most of the income of these "wooples" (well-off older people) comes from occupational pensions and savings. The richest 20 per cent of pensioner households in 1989 had an average gross income of £14,710, of which just £2,800 came from the state pension.

The better-off minority can be expected to grow, says Mr Dilnot: "More than two-thirds of men now retiring have some occupational pension income – and this averages £65 a week. And nearly half of all women approaching retirement age have some sort of occupational pension rights of their own in addition to any widow's benefits they would get from their husband's scheme."

Social spending: a narrower focus





Average occupational pension on retirement*
£ per week
(figures in brackets are proportion with occupational pension**)

Year born	Men	Married women	Single widowed women
1900-04	40 (54%)	(4%)	(26%)
1905-09	45 (56%)	34 (5%)	30 (30%)
1910-14	44 (61%)	29 (7%)	36 (33%)
1915-19	57 (67%)	29 (11%)	35 (40%)
1920-24	65 (70%)	29 (17%)	40 (46%)
1925-29	(–)	31 (22%)	47 (49%)

* Average value of occupational pension received by men aged 65-69 and women aged 60-64 with income from an occupational pension. ** Proportion of men aged 65 and over and women aged 60 and over with income from an occupational pension.

Households in each income group, 1989
Percentage of each type in following household*

	Bottom 20%	2nd 20%	3rd 20%	4th 20%	Top 20%	ALL
Retired	52	45	17	9	7	26
Non-Retired						
1 adult	10	7	10	12	17	11
2 adults	7	11	21	27	40	21
1 adult with children	10	6	2	1	1	4
2 adults with children	15	20	33	29	22	24
3 or more adults	5	11	17	22	13	14

* Ranked by equivalised disposable income (with or without children)

Better targeting of the state pension could divert the money from the minority of better-off pensioners to the most needy pensioners – and perhaps save some of the £27bn budget. One option would be to target the state pension on older pensioners. They are much more likely than their younger colleagues to be at the bottom end of UK income distribution, since they retired when occupational pensions were less common. However, as the generation currently retiring with substantial alternative income grows older, paying extra to the over-75s would soon become just as untargeted as universal benefits for younger pensioners now are.

The alternative would be to switch to means-testing. This could not be introduced overnight. Even wealthy pensioners will have made plans on the assumption that they will receive the state pension – and it would be unjust to sweep this away suddenly. The same applies to those approaching retirement who may have counted on the state pension for their old age.

Any change to means-testing would, therefore, have to be phased in over a number of years. However, the current level of pension might be frozen for those already receiving it, rather than increasing it in line with inflation. Some of the almost £1bn saved could be used to increase means-tested benefits for the very poorest, with the rest contributing to the reduction in public expenditure. In future years, much greater savings would be available if the frozen pension was completely phased out with a further switch to means-tested benefits.

Similar considerations apply to child benefit, the payment made to all parents of dependent children irrespective of income. The level is £9.65 a week for the first child, £7.80 for each subsequent child (lone parents get £5.85 a week extra for the first child). The total cost of child benefit will be £6.3bn next year.

Child benefit can make an important contribution to family well-being in low-income households. In 1989, for example, it contributed 8 per cent on average of the gross income of the poorest 20 per cent of two-parent, two-children families. For the poorest 20 per cent of lone-parent families, child benefit accounted for over a fifth of their gross income.

As with the state pension, the level of child benefit is insufficient to lift these poorer families out of poverty. The average gross income of the poorest 20 per cent of two-parent, two-child families was £9,000 a year in 1989, half the average for all non-retired households. For the poorest 20 per cent of lone-parent families, average gross income was just under £4,000 a year.

However, child benefit goes to many families in the upper end of the income distribution. One in six families is in the top 20 per cent of UK households in terms of disposable income, and two-fifths are in the top 40 per cent. Better targeting could redirect the money from these better-off families to those for which current levels of benefit are insufficient to raise their income above poverty levels, as well as perhaps reducing the overall cost of child benefit.

Despite the savings which might be made, there are two difficulties in moving towards greater use of means-testing: take-up and the impact on incentives. Means-tested benefits notoriously suffer from low take-up, either because people do not know they are entitled to claim them, or because of the stigma attached to applying for them.

"While child benefit reaches virtually all parents," according to Ms Fran Bennett, director of the Child Poverty Action Group, "the latest survey into the take-up of means-tested family credit for low-income families suggests that only half of those entitled to it were actually receiving it."

Part of the reason for this appears to be that many of the people who do not apply for means-tested benefits would be entitled to relatively small amounts or would qualify for only short periods of time. Any shift away from universal benefits would have to make much greater efforts to ensure that means-tested benefits reach more of those who need them.

Means-testing also has damaging effects on incentives. Typically, means-tested benefits such as family credit or housing benefit are reduced by 70p or 80p for each extra £1 of net income. This gradual withdrawal of means-tested benefits can combine with income tax and other deductions to leave the individual little better off and in some cases worse off as his or her income rises.

The Department of Social Security estimates that last year 660,000 people on means-tested benefits lost 70 per cent or more of each additional £1 of income. A small number of people in work would have been better off if unemployed.

The disincentive effects can be just as damaging for savings, since any sensible means test must take account of capital as well as income. Under the present means test for family credit, for example, no benefit is paid to anyone with more than £8,000 of capital (other than the value of their home and certain other assets).

People with less than £8,000 of capital are assumed to earn £1 a week in interest for every £250 over £3,000. This imputed interest rate is more than 20 per cent a year, much higher than could possibly be earned on it. Such an approach encourages those who might qualify for means-tested benefits to spend their capital or invest in assets such as a home which are not assessed for the means test. The consequences could be particularly damaging if the state pension was means-tested, offering a disincentive to save for retirement at a time when the government is anxious to promote personal pensions.

"Any move to means-testing for the pension would need to make sure that the return to private saving is not depressed excessively," warns Mr Dilnot.

Even if difficulties over take-up and incentives could be resolved, however, there remains the problem of the government's manifesto promises. A freeze in the state pension or child benefit or a switch towards means-testing would mean abandoning those promises.

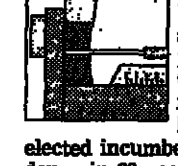
But if the Conservative government is unwilling to move towards means-testing, it could find itself uncomfortably outflanked from the left. Some leading Labour figures – including Bill Morris of the powerful TGWU general workers' union – have been urging the party to consider such a switch as part of the rethink after last April's election defeat. Labour then promised rises in the state pension and child benefit which would have cost over £3.5bn a year and required tax increases. Some party strategists are toying with a more selective approach to benefits, a fundamental change of approach for a party which has tenaciously defended universal benefits since the creation of the welfare state.

There is little sign so far that the government is prepared to follow suit in such radical rethinking – hence ministers' focus on benefits for the long-term sick and disabled which are not protected by manifesto commitments. But with pressure on public expenditure now growing, criticism of universal benefits is likely to become increasingly difficult to resist.

PERSONAL VIEW

No Teflon for Bush

By James Annable



George Bush must be asking himself what went wrong. Why are voters so angry? Can the problem be fixed? Or must he face the ignominy of becoming only the second elected incumbent to lose the presidency in 60 years?

The answer to the first question is the economy. Polls reveal a widespread belief that the economy performed poorly under Mr Bush's stewardship. The White House, somewhat peevishly, argues that conclusion is unfair and inaccurate.

The evidence provides some comfort for the president's defenders. When Mr Ronald Reagan was running for re-election in 1984, the unemployment rate average was 7.6 per cent and inflation was 4.6 per cent. The sum of the two rates, the famous misery index, was 12.3. During the first eight months of 1992, the jobless rate was 7.4 per cent and inflation 2.9 per cent, a more modest misery index of 10.3.

Moreover, federal debt nearly tripled in the Reagan years, three separate tax increases were enacted and the federal budget was in a chronic state of confrontation, stalemate and missed deadlines.

Today, however, the White House has lost the Reagan magic, because it has no favourable answer to Mr Reagan's central campaign question of 1980: are you better off than you were five years ago? It was Reagan's genius to understand the political power of that question.

To gauge public satisfaction with the economy, I have constructed a measure of "feel-good" consumption (see table). This somewhat arbitrary measure subtracts from *per capita* consumption those categories that contribute little to consumer satisfaction: outlays for household utilities, some transport costs (including commuting expenses and car repair), medical costs (including insurance premiums), legal fees and private education.

GROWTH IN FEEL-GOOD CONSUMPTION
(inflation adjusted; per capita)

Term	President	%
Jan 61-Nov 64	Kennedy/ *Johnson*	9.5
Jan 65-Nov 68	Johnson	14.6
Jan 69-Nov 72	Nixon	10.0
Jan 73-Nov 76	Nixon/ Ford	2.9
Jan 77-Nov 80	Carter	3.5
Jan 81-Nov 84	Reagan	10.1
Jan 85-Nov 88	Reagan	9.3
Jan 89-Aug 92	Bush	−2.3

The Reagan years are instructive. The high unemployment, tax increases, poor productivity, collapsing trade balance, breakdown in fiscal responsibility and even the occasional nap at a cabinet meeting did not matter much when feel-good consumption was rising so fast. It was the key ingredient in Mr Reagan's celebrated Teflon.

By contrast, with falling feel-good consumption during Bush's presidency, it matters less to be the hero of Kuwait and to have presided over the end of the cold war.

Mr Bush must manage his presidency without Teflon. His problem of lagging living standards is not amenable to quick fixes such as easier credit.

In the 1980s, sharp increases in the federal deficit, in the trade deficit and in foreign borrowing helped feel-good consumption return to robust growth rates. In effect, the US was propping up its living standards with a flood of imports and a mountain of debt.

That game cannot be played indefinitely. Consumption growth faster than total output growth is inherently temporary. Foreign debts must be serviced and the trade deterioration reversed. The process is symmetrical. To make room for the accelerated growth in exports and the slowdown in imports, consumption growth must lag the overall economy. The correction process has already begun. Since 1988, feel-good consumption has declined while real exports have risen at a strong 7 per cent annual rate.

Without increases in domestic and foreign debt to support consumption growth, gains in living standards will again be governed by productivity growth, which has lagged badly in the past 20 years. US economic policy, therefore, is at a fork in the road. One direction continues high public deficits, low private saving and investment, poor productivity growth, and slow gains in living standards. The other involves reducing the public deficit, higher private saving and investment, rising productivity growth, and (with a lag) accelerating increases in living standards.

The political key to the apparently attractive second option is the lag between higher saving and higher consumption. It could be eight years or more before higher saving and investment would result in more robust growth in feel-good consumption; in the meantime, living standards would be even lower than in the first option.

As a result, no matter what national economic policy is adopted, feel-good consumption will fall short of public expectations in the 1990s. And it will be even tougher in 1996 to run for president representing the incumbent party. As former secretary of state Mr George Shultz once observed: "An economist's lag may be a politician's catastrophe."

The author is chief economist at First National Bank of Chicago.

A face-lift passing for emergency first aid

The Birmingham summit did little to resolve the mounting pile of problems facing the Maastricht treaty, writes **Lionel Barber**

The Birmingham summit was supposed to give a shot in the arm to Mr John Major, but it may go down as the day the British government shot itself in the foot.

The government's panicky handling of the coal industry crisis has unsettled Britain's European Community partners as much as Tory backbenchers. Last Friday's surprise 1 percentage point cut in UK interest rates was a damaging blow to the prime minister, renewing doubts about his judgment and political strength at home.

As one senior member of an EC delegation remarked of Britain's apparent solo dash for growth: "Your government has learnt nothing. It is repeating the same mistakes of the past 20 years."

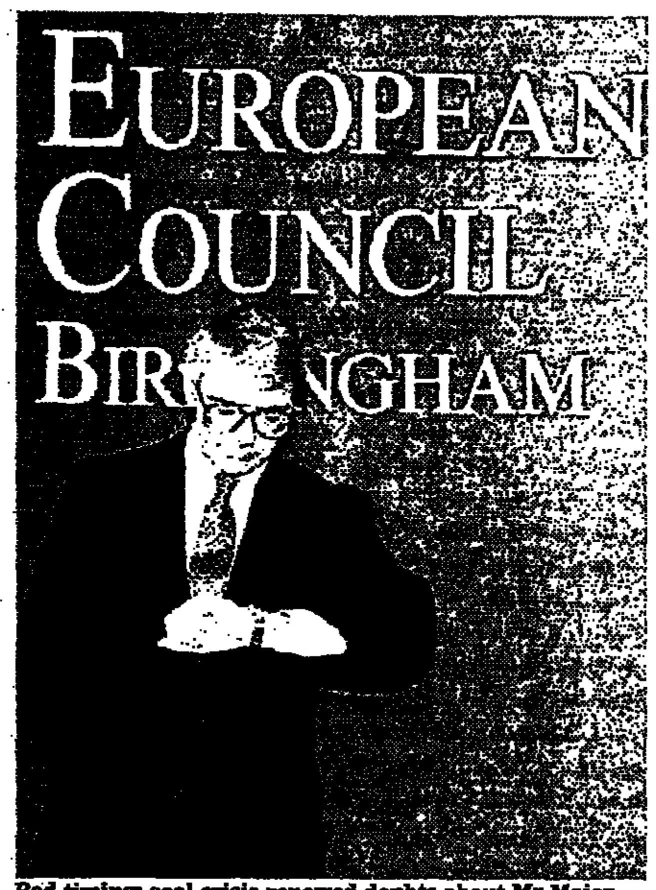
In the past four weeks, Mr Major and Mr Douglas Hurd, the foreign secretary, have laboured mightily to rebuild Britain's standing in Europe after the withdrawal of sterling from the exchange rate mechanism and the ensuing row with the German government and the Bundesbank.

The efforts to banish the mistrust surrounding the British presidency of the EC have met with some success, mainly because Mr Major managed to unite his cabinet behind the one goal which matters most to his European partners – early ratification of the Maastricht treaty on European Union, *without renegotiation*.

In this sense, the coal industry crisis could not have come at a worse time. Having placed their faith in Mr Major to deliver ratification of the treaty, EC leaders now see the risk this week of a parliamentary defeat for Mr Major on the pit closure programme – a defeat which could leave him gravely weakened in the forthcoming battle with Tory Eurosceptics to push Maastricht through the House of Commons.

Before the coal crisis, British diplomats were arguing that Mr Major had exploited his domestic problems to his own advantage. Thus, the Tory party conference in Brighton, highlighted by a minor revolt of Euro-sceptics led by Lord Tebbit, had underlined the difficulties in securing Maastricht ratification. The question which EC leaders now want to know is whether Mr Major will be weakened to the point where he dare not submit the treaty to the Commons before Christmas.

European leaders headed by *Chancellor Helmut Kohl* of Germany and President François Mitterrand of France are adamant that there is no alternative to the ratification of Maastricht by all 12 member states. In their view, treaty ratification is vital to end the crisis of confidence in the Community, its leaders and its institutions which erupted last June when Danish voters *narrowly rejected the treaty*.



Bad timing: coal crisis renewed doubts about Mr Major

What was striking about the one-day Birmingham summit was how little time it devoted to the issues which many believe lie at the root of the current problems facing Europe – the accelerating economic downturn which in turn is raising questions about the common drive for economic convergence and future European monetary union laid out in the Maastricht treaty.

Little time was devoted to the economic downturn which is raising questions about the drive for convergence

Nor was there are any attempt to put pressure on France, the lone hold-out on a Gatt world trade agreement, which now appears within reach and which many leaders present in Birmingham believe offers the best prospect for world economic recovery.

Instead, leaders focused on the need to give the EC what amounts to a face-lift. In *contrite mood, they acknowledged* that the Community had failed to explain in simple language what it was doing and why; and they drew up a list of ideas aimed at selling the Maastricht treaty to the sceptical citizens of Europe.

In future, the heads of government pledged that the Community will be more open and more democratic. Among the *ideas put forward by the British* presidency and the European Commission are: British-style green papers inviting public comment on proposed EC legislation; the dispatch of individual commissioners to liaise with national parliaments to explain the Commission's annual work plans; and the partial opening-up of EC foreign ministers' sessions to the public.

The more important tinkering involves the application of "subsidiarity", the concept of maximum devolution of power to national, regional and local government. But here again, there may be less to the ideas currently under discussion than meets the public eye.

Mr Jacques Delors, president of the European Commission, has staged an effective counter-attack against British and *German efforts to rein back the* power of Brussels.

In Birmingham, he argued that the Commission would become less active now that the big burst of legislation tied to the creation of a single European market was virtually complete. He also secured British agreement that the introduction of subsidiarity would not change the balance of institutional power in Brussels, adroitly playing on the fears of *smaller EC states which view* the Commission as their traditional protector against the bigger members.

Even more striking, Mr Delors noted that subsidiarity could only be truly applied in a federal system. As the Commission's latest working paper on the subject suggests, the obvious model is the 10th amendment to the US constitution, which enumerates the balance *of powers between the Federal* government and the states.

Yet federalism is anathema to the UK government, which views subsidiarity as a means of increasing the purview of national parliaments at the expense of the Community-wide approach, under the wider goal of enhancing co-operation between EC governments.

"What we have are two completely different schools of thought," says a senior EC official, "and the British need to make up their mind on what they want to do."

In the six weeks leading up to the next EC summit in Edinburgh, the British presidency must attempt to bridge these gaps on subsidiarity. For it is at Edinburgh that decisions must be taken which ought to produce the form of words which *the governments of the* UK and Denmark will use to win support for the treaty, first in the House of Commons and then in a second Danish referendum late next spring.

What Birmingham showed was that leaders found it far easier to agree on declarations of intent than to support concrete action. Yet at the same time the problems continue to pile up. Negotiations on the Delors II budget package to increase "cohesion funds" for the poorer member states have barely begun, though the respective bargaining positions are clearly identified; and talks between Denmark and its partners on modifications to Maastricht are only due to start early next month.

Delay in agreement on any of these issues could be fatal, because it would foster the impression of drift currently afflicting the Community. It could even encourage others states, notably France and Germany, to press ahead with their own plans for political and monetary union based on an "inner core" of federally minded, stronger economies.

At present, neither country wishes to create a mini-Europe; but neither intends to leave the EC in limbo. Mr Major, facing the gravest political crisis of his premiership, is not in much of a position to argue.

LETTERS TO THE EDITOR

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Challenge to become competitive

From Mr Mark Radcliffe.

Sir, Ms Rebecca Breeze (Letter, October 12) is right in saying that by adopting the right attitudes to our current problems we have the power to influence Britain's economic future.

The Confederation of British Industry believes a strong UK manufacturing industry of adequate size is the only solution to the wealth generation, investment and employment needed to give us a sustainable standard of living. Manufacturers recognise that with a more competitive value for sterling they now have an opportunity to sell more products both at home and overseas.

British consumers will buy British goods when these are clearly shown to be superior in price, design, performance, delivery, and after-sales service. Those who buy foreign goods presumably think the British goods are not competitive. Therein lies the challenge.

That challenge is already being addressed by the CBI's national manufacturing council, set up at the beginning of this year with representatives of 50 leading British firms, to explore how the standards of average UK firms can be brought up to those of the very best. The council will be producing its recommendations in a report to be published at the CBI's national conference on November 8. It will set out what needs to be done to ensure that we invent, design, make and sell more products that are better than, or at least as good as, those of our best overseas competitors.

Increasing globalisation of business means that to be fully competitive we must achieve world class standards. That requires a partnership – not just between manufacturers, financiers and government, but involving everyone in the UK if we are to achieve true success.

Mark Radcliffe,
deputy director-general,
CBI,
Centre Point,
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Sony coping with 12 headaches on VAT front in Europe

From Messrs Foucher and Woodmansey and Ms Crockford.

Sir, For "VAT headache" (Editorial, October 13) please substitute "12 VAT headaches". Sony has 200 people throughout Europe trying to develop 12 reporting systems for VAT returns, European sales listings, and Intrastats based on primary legislation in four states, draft legislation in five states and no information at all in the remaining three (Italy, Belgium, Portugal) – and all before January 1 1993.

Furthermore, we are told by our VAT advisers Price Waterhouse (London) that there are a number of anomalies and differences in the various legislations: EC free ports will be handled differently for VAT purposes (Southampton is inside the EC, Copenhagen is outside); Germany and France want regional data for Intrastats but the UK does not; and Spain does not currently allow non-residents to register for VAT at all.

Even if we want to register some of our companies for VAT in the UK using a fiscal representative, the forms are not yet available. To say nothing about triangulation which accounts for 70 per cent of our European business and which will lead to registration of our reinvoicing companies just about everywhere. Even if the triangulation rules are simplified (*to which France still* objects), it will leave almost no time to put them into effect.

Two further points. First, the EC Commission is not to blame for the complex legislation. Simplification of the current rules was proposed some time ago by the EC but rejected by *some member states for fear of* increased VAT evasion. The reason for today's "uncomfortable compromise" is the poor consultation between European businesses, their elected representatives (both locally and in Brussels) and the VAT authorities, resulting in governments pursuing their own legislative interests rather than the interests of businesses they represent. The open dialogue between UK and Dutch customs and businesses provides two excellent European models in this respect.

Second, we are advised that a VAT registration in Italy gives rise to a permanent establishment and therefore a corporation tax liability. This has been confirmed to us by representatives of the Italian government. Should we comply with EC law and pay higher corporate taxes in Italy or take account of Italian law and avoid VAT registration there altogether? Is it fair that on top of their other VAT obligations, European businesses should also be forced to restructure themselves in order to avoid conflicts between EC and local legislation?

Serge Foucher,
Andrew Woodmansey,
Christine Crockford,
Sony VAT Task-force,
Sony Europa,
Hugo-Eckner-Strasse 20,
D5000 Cologne, Germany

Fraud made easier by avarice

From Mr Oladele Olagbaju.

Sir, In your article "Companies face new fraud threat from Nigeria" (September 14), the impression given is that any business inquiry made by any Nigerian company is to be avoided at all costs.

What your correspondents forgot to mention is the fact that any company which willingly answers to the demands of tricksters is in fact looking for a quick buck and will find trouble aplenty. It is a pity such companies have to lose their money before they realise their folly.

What you should be asking is how many companies had answered such demands, hoped for a wind-fall, lost some money, and are now licking their wounds.

Simply, avarice at its best.

Oladele Olagbaju,
managing director,
Marius,
15 Adeyemo Alakija Street,
Victoria Island,
Lagos

Matchstick economics

From Prof Michael D Stephens.

Sir, I now realise, alas too late for comfort, that Sir Alec Douglas-Home's mastery of economics through the manipulation of matchsticks was the high point of Conservative party understanding of the Dismal Science.

Michael D Stephens,
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Economics not enough – social vision needed

From Prof Ray Pahl and Prof Taylor-Gooby.

Sir, The British economy lies in ruins. Successive governments have served The Market, now revealed as the siren that has lured us on to the rocks. The logic of economics has manifestly failed to meet the needs of British people.

Markets destroy what is not immediately profitable and hence offer us no future. An alternative vision would seek to maintain our industrial base irrespective of short-term profit and would serve the people instead of sacrificing them to obsessions.

Exploiting our common wealth requires a common purpose. Understanding how society works is outside the province of economics, subservient to market rationality. For this reason economics is unable to offer remedies for the problems we now face. Britain PLC needs a social vision.

Ray Pahl,
research professor
in sociology,
Peter Taylor-Gooby,
professor of social policy,
University of Kent
at Canterbury

Banking settlement proposal reduces risk but creates illiquidity

From Mr Subir Lall.

Sir, Regarding your editorial on the clearing and settlement procedure in operation in Chaps ("Well done, Chaps", October 7), your comment stresses only the dimension of risk in the payment mechanism and the gains from reducing risk.

The present system of end-of-day net settlement is risky from the point of view of the central bank but has the property of providing a high degree of liquidity to the financial system. The proposed reform is one of continuous gross settlement with collateralised overdraft facility.

While there is no denying that risk is virtually eliminated, the proposed solution goes to the other extreme in that it may make the system highly illiquid. The basic role of the banking system is to provide liquidity by making the market in liquid funds, ie bank reserves. This will reduce the competitiveness of British banks in the global market. The US domestic payment system (Fedwire) has recently instituted a pricing scheme for overdrafts, but overdrafts do not have to be collateralised (unlike the cross-border Chips system which has partial collateralisation). Full collateralisation will impose an immense burden on banks and their customers and this will impose an unduly "excessive" tax on the banking system.

While it is certainly important to reduce risk, it should not be done in a way so as to paralyse the basic banking functions. It would be more appropriate to have a system of net end-of-day settlement with explicit caps on the extent of intra-day overdrafts, combined with a pricing scheme for overdrafts. Collateralisation, if any, should be a very small proportion of the overdrafts so as not to tax the system. Indeed, as you point out, these issues are significant from the point of view of an integrated European payments system which is all the more reason to have a balanced view of the trade-off between risk and liquidity.

Subir Lall,
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USA

OBSERVER

Ruler of the roost

■ Among the wise old owls of business, Lord Kadoorie of Kowloon now retiring from the chairmanship of Hong Kong's China Light & Power, is on a perch of his own. Compared with him at 93, there's a callow look about other family patriarchs such as Gianni Agnelli and Lord Forte, who have likewise scheduled themselves for retirement.

The Kadoories have always been different from the other members of Hong Kong's ruling elite. For a start, the 93-year-old's father, Elly, was a Jewish merchant from Baghdad instead of a clansman from a Scottish lowlands.

Moreover, unlike many of the other local Taipans, the Kadoorie family has long preferred to live in the colony than London, and concentrate its philanthropy on the Near and Far East. It has helped them adapt better than most to the changes in China.

Whereas Jardine, Matheson opened in Canton in 1832 and the Swires set up in Shanghai in 1867 and started the China Navigation Company in 1872, the Kadoories did not really get going in China until the early part of this century.

True, like the others, they have had to rebuild their fortunes on several occasions and to repel hungry predators from their quoted businesses, which include a controlling stake in the famous Peninsula Hotel. But despite criticism that they were not moving with the times, their conservative approach has paid dividends.

If Forbes magazine is to be believed, the Kadoorie family has a net worth of \$3bn, or \$1bn more than the Swire brothers and roughly 10 times the estimated worth of the Keswicks, who run Jardine, Matheson.

So it would seem that the battered humpty-dumpty doll – which the retiring Lord keeps in his office to remind him of the consequences of losing your balance – has served him well.

Image problem

■ The cinema-filling triumph of Dances with Wolves may prove to have wrong-footed the marketing plans of British Columbian ranchers. After all, the film made much of Kevin Costner joining Sioux braves in eating certain unmentionable parts of a bison.

The ranchers are avid to put the said beast on family menus not just in North America, but throughout Europe. Hence a grand sampling at British Columbia House in London of "Bison Bites", soon to go into bulk production.

Alas, they bear a memorable resemblance to meat balls.

Swift dispatch

■ As the battle in the money markets mounts, General Portfolio has ordered an emergency manoeuvre. Since "rates have become so volatile and fast moving", says the largely French-owned insurance company, its formerly periodic market review will now appear every month.

Steady on chaps.

Unofficial line

■ Michael Heseltine is not the first president of Britain's Board of Trade to find that the resources to hand will not stretch to sustain an insufficiently economic coal industry. His predecessor, the Earl of Dalhousie, was in a comparable pickle soon after leaving the presidency in 1847 to become governor general of India.

Aiming to improve transportation there, he set about developing the East Indian Railway. But he was saddled by the London-based Indian Board of Control with a specification and budget to lay

"I'm just glad we lied about having voted Tory, that's all"

down 92 miles of double track, which would have been 30 miles too short to reach the Raneegunge coalfield.

"I regard the proposal as totally useless," Dalhousie wrote. "The government might as well construct a railway from the jail to the general hospital."

Whereupon he ignored the official policy, built a single-track line that served the coalfield, and both worked prosperously for a good while thereafter.

Surprise packet

■ Hotels are forever seeking new ways to offer customers a little bit extra, such as folding the tongue sticking out of the box of tissues. But a colleague visiting Geneva was still surprised to find, among the peanuts and chocolates in his room's minibar, a box of condoms.

The Swiss Mövenpick group, which owns the hotel, said they were there not as a marketing ploy, but as a response to increasing concern about Aids.

Indeed, whether to supply them is left to the conscience of each individual hotel's management. So thrifty travellers who keep themselves in shampoo and bath oil as a by-product of their globe-trotting, cannot count on a Mövenpick group booking to yield a further cost-saving collectable.

Nevertheless, in the future perhaps, hotel guides will have some appropriate symbol to denote whether the additional feature is included.

Soothsaying

■ Greg Dyke, the irrepressible group chief executive of London Weekend Television, is a master of the cheap shot.

At a recent conference in London on the prospects for advertising revenues in 1993, Dyke hoisted high a black bag containing, he said, the tools by which to determine precisely the immediate future of advertising revenues. It contained a roulette wheel, a pack of playing cards and a dice.

After taking a side-swipe at economists and their predictive powers – "an economist is someone good with figures but lacking the personality to be an accountant" – Dyke proceeded to take take out a Bible and summoned the assembled to prayer.

"Will someone somewhere please end the recession before all the advertising agency owners are forced to sell their Porsches," he pleaded.

In the dark

■ Ever wondered why some London cabbies seem to drive around without their "for hire" signs illuminated even when they are looking for fares?

A colleague who successfully hailed one such cab, got in, gave his destination, and asked the driver why he hadn't bothered to switch his sign on.

"It *is* on," the cabbie replied. "Trouble is, I spend so much time driving around empty these days that the bleedin' bulb's gone."

FINANCIAL TIMES
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Elections to the central committee reverse 15-year trend

Boost for military in China

By Simon Holberton in Beijing

THE CHINESE Communist party yesterday elected its central committee, ushering in a better educated leadership, notable for the absence of nepotism, but with an enhanced role for the military.

The appointments to the party's central committee – the first since pro-democracy demonstrations were put down in June 1989 – reversed a 15-year trend of *decline in the People's Liberation* Army's membership of the party's top decision-making body, diplomats said.

Admirals, generals and *political* commissars were among new members on the committee, voted in at the end of the party's 14th Congress. Diplomats said the rise in PLA representation underlined the concern within the Communist party that the economic reforms the party endorsed at the congress could lead to civil unrest, especially if *unemployment rises*.

"They need *to have the PLA* on the party's side if things get out of hand," one noted last night.

The congress has been a triumph for the economic and political policies of Deng Xiaoping, 88. During the past week Deng and his ideas have been lauded in the official media – promoting China's pre-eminent leader to a *status almost higher than that of* Mao Zedong.

The near 2,000 delegates voted unanimously to accept a report presented last week by Jiang Zemin, party general secretary. In it Jiang said that China would develop a "socialist market economy", where prices were deregulated, government would be taken out of state industry and *foreign investment encouraged*.

The selection is in line with Deng's instructions to choose leading officials who were "revolutionary, young, knowledgeable and specialised".

Communist party general secretary Jiang Zemin (left) laughs with Chinese president Yang Shangkun as Premier Li Peng (right) follows after the close of the 14th party congress

The committee – expanded from 175 to 189 full members together with 130 alternates – saw a rise in provincial representation at the expense of the central government. It also exhibited a bias towards the university-educated and, by China's standards, the young. Nearly half are new *faces*.

The Xinhua news agency sought to emphasise the youth of the party's new central committee and its ability to provide China's future leaders. It noted that 61 per cent of the committee members were below 55 years of age.

This was "evidence that the Communist party of China is full of vigour and vitality and has a train of successors," it quoted "sources" as saying.

None of the children of the *party's elderly leaders were* appointed to the central committee, either as full or alternate members. Before the congress there was intense speculation that many, including Deng's daughter Deng Nan, would be elevated to the committee.

The congress dumped some ideological hardliners, and about 100 of the outgoing committee's members stepped down to make way for the younger officials. Eight senior leaders, including President Yang Shangkun, Wan *Li, chairman of the National* People's Congress, or quasi-parliament, and Qin Jiwei, China's defence minister, retired from the committee.

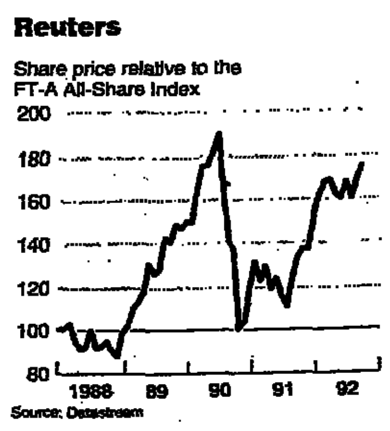
THE LEX COLUMN

Dates for the diary

What do the following dates have in common: October 13 1989, October 19 1987, October 18 1937, October 6 1932, October 29 1929, and September 18 1873? Dunce's caps for those who did not know they were the occasions of *US stock market collapses, and top of* the class for those who are also aware of other autumn falls. Indeed, of the 15 largest daily declines in the Dow *Jones Industrial Average* since 1928, 10 have been between September 24 and November 11.

For those of an astrological bent, such figures may have significance, but there is also a more serious side to stock market crashes. Since 1987 much attention has focused on *what role*, if any, derivative products played in the crash. Futures and options do not create any net new risk, since for every long position there is a short, but they do encourage speculators. If such short term traders dominate a market they may increase volatility.

Extra short-term volatility, however, does not make crashes inevitable. Because futures allow speculators to sell markets short as well as buy them, derivatives may even lead to a more measured decline over a longer period when a market is over-bought. In cash markets, fear may build up in holders of shares who are reluctant to sell until a crash is triggered. Futures pressure may provoke smaller bouts of selling earlier. Yet if history does hold the lesson, those obsessed with autumn catastrophe may have the last laugh. The South Sea Bubble burst between August and November 1720, and the Dutch tulip mania peaked in November 1636.



European mergers

The pace of cross-border European mergers and acquisitions is always of keen interest to corporate financiers. But the marked slowdown of M & A *activity in the third quarter may* contain a wider message for stock markets too. The recent trend is most visible in provisional figures last week from KPMG. These show that, compared with the first and second quarters of 1992, the volume and value of deals involving target companies with their headquarters in the European Community roughly halved in the three months to September. It can, moreover, be no coincidence that the three transactions currently being investigated in Brussels by the EC's Merger Task Force is the lowest number on record.

Currency turbulence over the summer – heightening perceptions of financial risk – no doubt partly explains the lull. The capacity of companies to finance takeovers, moreover, will have been constrained by nervous banks and wobbly share prices. One can just about imagine a successful capital-raising on Wall Street; in the continued absence of any tangible sign of economic recovery institutions must be distinctly wary of rights issues elsewhere. Corporate deals tend to be a reliable lead indicator of stock market activity. The question *for* investors is whether companies are genuinely strapped for cash, or whether they believe that European asset values are still inflated. The collapse in 1992 earnings forecasts – BZW expects earnings of continental companies to rise just 2 per cent, against a 12 per cent projection three months ago – is hardly auspicious.

Sema group

One can only stand back and admire the elegant way in which Paribas has effectively transferred half its 39 per cent stake in the Anglo-French computer services group Sema to France Telecom. *Last week's transaction* was particularly sensitive because it had to be carefully constructed so as not to offend UK Takeover Panel and Stock Exchange rules.

Thanks to the creation of a joint holding company for the stake – 50.1 per cent owned by Paribas, 49.9 per cent owned by France Telecom – there is no question of control of Sema having changed hands. The two investors' obvious interest in acquiring Schneider's 10.5 per cent Sema stake is accommodated by a six year put option which falls neatly within the Panel's regulations on creeping control. The proposed asset swap between France Telecom and Sema, meanwhile, does not breach the Stock Exchange rule on connected parties and *capital transactions* since France Telecom is not directly interested in a 10 per cent stake.

Paribas and France Telecom – notwithstanding Paribas' apparent *intention* to divest – insist they will pay for any Schneider shares which come *their* way in exact proportion to their interests in the holding company. No doubt Paribas has a long term commitment to Sema. Nevertheless minority shareholders *would probably* be happier if they had more precise details of the prices negotiated between Paribas and France Telecom, and between these two parties and Schneider. If the put option is fully exercised, after all, the joint company will end up within a *whisker of 50 per cent*.

Reuters

Having outperformed the market over the past two months Reuters share price faltered last week, suggesting it may be due for a correction. Despite its best efforts, the company has yet to convince the City that Globex, its new out-of-hours trading *system for futures* and options, will be a real money-spinner. In the context of a company with first-half profits of £187m, revenues from the project are still trifling. The lingering concern is whether Globex will make a substantial contribution to earnings until well into the second half of the decade.

Granted, the number of terminals installed appears to be on target and the system's technical performance is *well up to scratch. Yet revenue* growth from transaction charges is slow, due to low trading volume. Globex is not the only weapon in Reuters' armoury, although the prospects for the Dealing 2000-2 foreign exchange trading system are equally obscure.

There is ample scope for cutting costs, but a price earnings multiple of 22 times last year's earnings demands a growth rate unlikely to come from increased efficiency. The new focus on television, evidenced by the company's involvement in the consortium bidding for ITN, makes strategic sense but will hardly match the high margins and rapid growth which it has enjoyed from financial market products. *There is also the question of* what the company should do with its rising cash pile: distribution to shareholders in the form of a higher dividend could be a sign Reuters is abandoning its status as a growth stock.

Tougher supervisory role to be urged for Bank

By Robert Peston in London

THE UK government is likely to recommend that the Bank of *England become more aggressive* and adversarial in its supervision of banks, after Lord Justice Bingham's report on the closure of Bank of Credit and Commerce International which is due to be published on Thursday.

Lord Bingham's report is critical of the Bank of England's supervisory department. But the Bank, which has a copy of the report, *does not believe the* resignations of Mr Brian Quinn, the Bank director responsible for supervision, or Mr Roger Barnes, the head of supervision, would be justified.

Price Waterhouse, BCCI's auditor, *is also braced for criticism*, as is Abu Dhabi, the Gulf state that was a long-standing investor in BCCI and its majority shareholder *at the time it closed*. The UK Treasury, however, is understood to escape serious criticism.

Lord Bingham was commissioned by the Treasury and the Bank of England to investigate the role of UK authorities in the events leading to the closure of BCCI in July 1991.

His report was completed several months ago, but the UK Treasury delayed its publication until the resumption of parliament to avoid the risk that Lord Bingham could be sued by disgruntled individuals mentioned in its pages. The report is being published under parliamentary privilege, in the form of an answer to a parliamentary question.

There are several criticisms levelled at the Bank of England, including:

- It did not get closely enough involved in the attempt to restructure BCCI in 1991, relying instead on information passed to it by Price Waterhouse.
- Senior officials at the Bank did not learn of the huge scale of the BCCI fraud until June 1991, even though detailed information *on the fraud* had been passed to the Bank early that year.

Royal chance to pour balm on Anglo-German relations

By Quentin Peel in Bonn

SOME of Germany's media *commentators appear to believe* that Britain's Queen Elizabeth II is arriving on a state visit today to patch up the unseemly squabble in Anglo-German relations over who forced sterling to devalue.

Two facts suggest otherwise.

In the first place, the trip has been planned with painstaking attention to diplomatic detail for the past 18 months. And second, the latest squabble needs patching up in Britain, not in Germany, where it has attracted little attention.

For all that, the Queen's visit to Bonn, Berlin, Dresden and *Leipzig over the next five days* could scarcely have been better timed to pour some balm on relations which have been troubled ever since unification.

It was Lady Thatcher's truculent acceptance of German *unification in 1990 which caused* diplomatic upset, and which the Queen now has a unique chance to set to rights with a trip *concentrated very much in the former* East Germany.

Queen Elizabeth is hugely popular in Germany, on both sides of the old divide. She is even called jokingly "our best German", thanks to her German ancestry – *underlined by the British* embassy in the publication of family trees for the Queen and Prince Philip, all of whose sisters are German princesses.

This will be her third state visit to Germany, putting the country on a par with only France and the US in the British royal perception of importance – a fact also widely reported.

Indeed, *she is coming about* two years ahead of her normal schedule, because "she wanted to visit Germany as soon as possible after unification", and in order "to demonstrate the British commitment to the new federal states [in East Germany]", according to the briefing given to the German press by Sir Christopher Mallaby, the British ambassador.

Her visit to Dresden to attend a service of "reconciliation and remembrance" in the Kreuzkirche, the cathedral which was heavily damaged in the allied bombing of the city in 1945, will be the most sensitive on both sides. There are fears of counter-demonstrations by rightwing extremists from the German side, and thunderous editorials in London if the Queen were to breathe a word suggesting British remorse for the fire bombings.

As for the latest Anglo-German squabble, the only sign that it has been taken into account is that Mr Helmut Schlesinger, *president of the Bundesbank and* blamed by the British Treasury for talking down sterling on the currency markets, will be invited twice to meet the Queen.

But perhaps that is simply confirmation that nobody in Germany has noticed the row.

Iraq sought arms link with BNL in Italy '10 years ago'

Continued from Page 1

flow is certain to complicate the Bush administration's *contention* that BNL's head office in Rome never knew of the US branch's Iraqi dealings.

In recent days, officials of the CIA and Department of Justice have admitted in closed Senate hearings that they deliberately concealed reports on Rome's involvement in the BNL scandal from Atlanta prosecutors and a federal court judge.

Senator Al Gore, the Democratic vice-presidential candidate, charged last week that the BNL *affair, which has been dubbed* "Iraqgate" by the US media, was part of an administration cover-up larger than the Watergate scandal.

On Friday, Mr William Barr, the US attorney-general, rejected calls for a special prosecutor in the BNL affair and appointed a retired judge from New Jersey to investigate possible criminal *wrongdoing by administration* officials handling the BNL case.

In the face of strong congressional criticism, Mr Barr said a new BNL task-force would also investigate *"the possible complicity of* persons in BNL-Rome".

The DIA report, dated February 15 1991, was one of a series sent from Rome to Washington concerning the illegal sale of land mines to Iraq, according to the US intelligence official.

The report stated that the Valsella mines were sent to Iraq "through circuitous routes involving Singapore, Switzerland and BNL office in Brescia, Italy".

The DIA document, which said the last shipment was sent as *late as 1987, noted that among* the mines shipped to Iraq were VS-1.6 and VS-2.2 anti-tank mines and VS-50 and Valmara 69 anti-personnel mines. Valsella stopped producing these mines last year.

Mr Gualberto Ranieri, a Fiat spokesman, said the Turin-based group did not wish to comment except to stress that it never had "management control of Valsella".

Cairo riot police sent in

Continued from Page 1

Over 500 people were killed and *some 6,000* injured in the earthquake. Government estimates put total losses at about $300m, with 8,000 structures destroyed or rendered *unsafe*.

The ruling National Democratic party has been unnerved by the speed with which Islamic groups mobilised to help people in distress. Within hours of Monday's disaster, Islamic charitable organisations had established relief centres in poor and crumbling neighbourhoods, hardest hit by the earthquake. They wasted *no time in providing* funds for the destitute and help for families made homeless, in marked contrast to official efforts.

The Islamic mainstream Moslem Brotherhood and more overtly militant religious groups have been mounting a spirited challenge to the government for the hearts and minds of Egypt's 57m people, many of whom live in poverty.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	F	10	50	Frankfurt	C	5	41	Majorca	S	19	66	Oporto	S	15	59	Tenerife	F	25	77
				Brussels	F	10	50	Geneva	C	7	45	Malaga	F	18	64	Oslo	C	5	41	Tokyo	C	20	68
				Budapest	F	7	45	Gibraltar	C	16	61	Malta	S	25	77	Paris	S	10	50	Toronto †	F	0	32
Ajaccio	S	17	63	Buenos Aires	F	19	66	Glasgow	S	9	48	Manila	F	32	90	Prague	F	3	37	Tunis	F	25	77
Algiers	F	22	72	Cairo	S	29	84	Helsinki	C	-1	30	Melbourne	C	14	57	Reykjavik	S	1	34	Valencia	F	19	66
Amsterdam	F	10	50	Cape Town	S	20	68	Hong Kong	S	28	82	Mexico City	R	21	69	Rhodes	S	25	77	Venice	S	17	63
Athens	F	24	75	Caracas	F	31	88	Innsbruck	R	3	37	Miami †	S	24	75	Rio d'Janeiro	F	36	97	Vienna	Dr	5	41
Bahrain	S	29	84	Casablanca †	S	25	77	Inverness	S	7	45	Milan	F	16	61	Rome	S	19	66	Warsaw	R	5	41
Bangkok	C	29	84	Chicago †	C	4	39	Islamabad	C	29	84	Montreal †	S	0	32	Salzburg	Sn	1	34	Washington †	F	6	43
Barcelona	S	16	61	Cologne	F	9	48	Istanbul	S	23	73	Moscow	R	6	43	S'Francisco †	C	14	57	Zurich	S	7	45
Beijing	S	21	70	Copenhagen	C	6	43	Jakarta	R	31	88	Munich	C	4	39	Seoul	S	19	66	Temperatures at midday yesterday			
Beirut	S	25	77	Corfu	C	24	75	Johannesburg	S	29	84	Nairobi	S	29	84	Singapore	F	29	84	† Noon GMT temperatures			
Belfast	[illegible]	[illegible]	[illegible]	Dallas †	S	17	63	Lisbon	R	11	52	Naples	F	21	70	Stockholm	F	3	37	C-Cloudy Dr-Drizzle			
Belgrade	F	22	72	Dublin	F	22	72	London	C	8	46	Nassau	S	31	87	Strasbourg	C	6	43	F-Fair Fg-Fog H-Hail			
Berlin	S	9	48	Dubrovnik	-	-	-	Los Angeles †	C	18	64	New Delhi	S	31	88	Sydney	F	18	64	R-Rain S-Sunny			
Biarritz	S	14	57	Edinburgh	F	6	43	Luxembourg	C	6	43	New York †	F	7	45	Tangier	S	26	79	Sl-Sleet Sn-Snow			
Birmingham	F	[illegible]	[illegible]	Faro	R	15	59	Madeira	R	15	59	Nice	S	17	63	Taipei	C	27	81	T-Thunder			
Bordeaux	F	15	59	Florence	F	18	64	Madrid	S	13	55	Nicosia	S	26	79	Tel Aviv	S	28	82				

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Costain to sell coal arm to Hanson

Costain, the troubled UK construction group, is expected to announce the sale of its profitable Australian coalmining subsidiary. Favourite to acquire the business is Peabody Coal, a subsidiary of Hanson Group. Costain is expected to raise £120m-£130m ($223m) from the sale. Page 20

Ikea may buy Habitat

Storehouse, the UK retailing group, is negotiating the sale of Habitat, its home furnishing chain founded by Sir Terence Conran (left), to Ikea, the Swedish furniture retailer. Talks are also being held with Sears, the retail and mail order group, which is understood to be interested in buying Richards, the Storehouse women's wear business. City analysts estimate the two deals could raise up to £70m ($120m) for Storehouse. Page 20

Canadian bonds become volatile

Canada's bond market is on a wild ride. Since early September, the yield on the benchmark 10-year government bond has swung between a 1992 low of 7.07 per cent and a peak of 8.05 per cent. The gap between three-year US and Canadian issues has seesawed between 107 and 309 basis points. Price changes of a dollar or two a day no longer raise eyebrows, and the market could become even more volatile over the next few weeks. Page 22

D-Mark bonds become liquid

Sweden's DM2.5bn ($1.77bn) financing last week, the largest Eurobond in the D-Mark sector to date, is widely seen as a turning point in the market's development. The sector has lagged others in the Eurobond market, failing to modernise its practices. But volume has grown steadily this year, and the sector is now expected to take the place of the virtually defunct Ecu bond market as the leading European currency bond market. Page 23

Market Statistics

Companies in this issue

Five years on, the crash still echoes

FT writers look at the long-term effects of the October 1987 fall in share prices across the world

On October 19, 1987, share prices crashed around the world, leading to fears of a second great depression. Governments eased monetary policy to prevent turmoil in the financial markets pushing the real economy into slump – a policy that contributed, in the UK at least, to rapidly-accelerating inflation and then, in reaction, to the monetary squeeze that produced the present recession. *As stock markets* fell, they were responding in part to the rise in long-term interest rates earlier in the year. That rise, with the equity market's uncertainty, ended the 1980s' upward spiral of asset prices, and caused problems for creatively-financed, acquisitive companies.

Some did not survive the next few years. In the UK, for example, British & Commonwealth, Polly Peck, Coloroll and Maxwell Communication fell victim as the new climate revealed weaknesses the 1980s' asset-inflation had concealed.

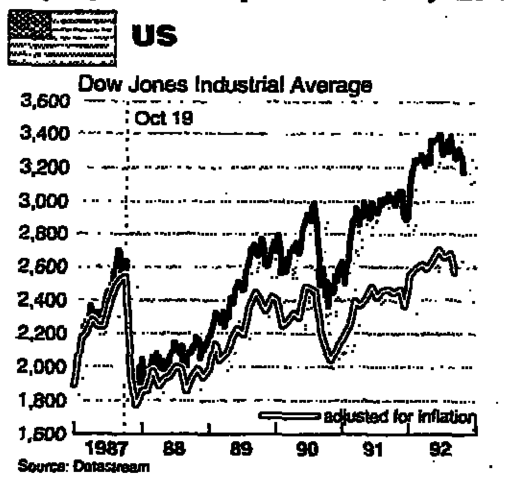
The charts show that in real terms the four leading stock markets are no higher than – and in Japan and the UK, well below – their pre-1987 levels.

The table lists the best and worst performing large shares during the crash period, and what has happened since. The "crash change" column shows the percentage change in a company's shares from the day before the crash to the market's trough; the second column shows the change in the shares from before the crash to now.

Comparing the two columns shows the market's nose for winners and losers: shares which suffered most during the crash have by and large done poorly since, with a few striking exceptions, such as J.P. Morgan, Disney, RTZ, and MAN. Those which fell by least during the crash period have usually continued to outperform the market.

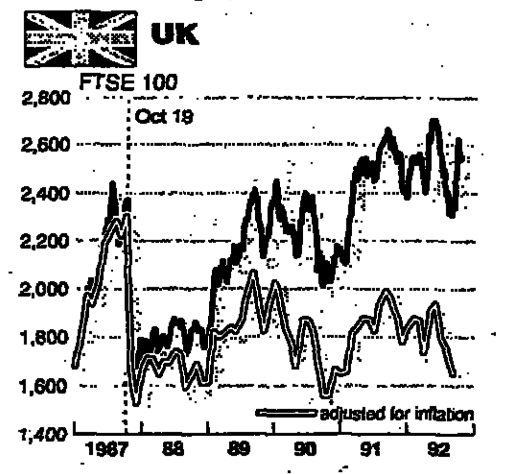
Peter Martin

US

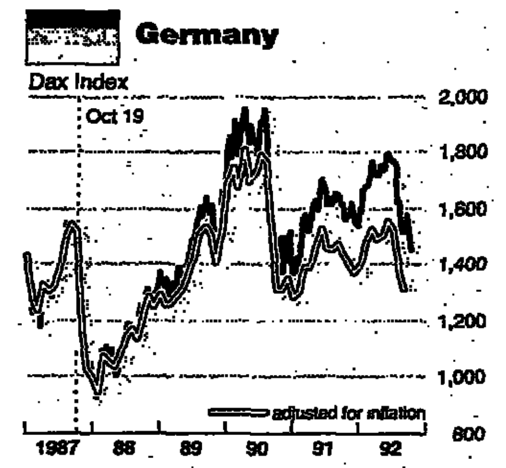


Source: Datastream

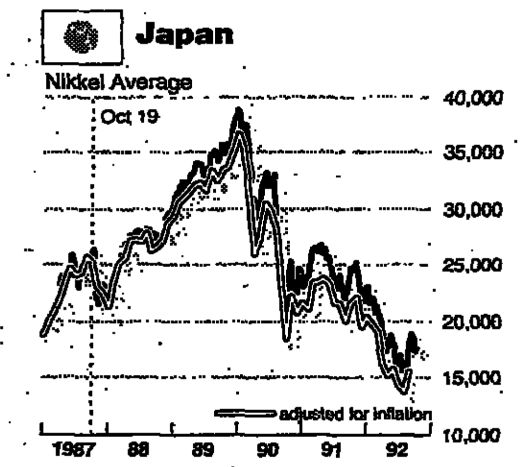
UK



Germany



Japan



US: Best performing stocks

	Crash change %	Pre-crash to date %
Union Carbide	−13.8	+ 8.1
Texaco	−14.5	+ 83.8
Merck	−15.9	+107.6
Philip Morris	−16.7	+201.6
Chevron	−17.3	+ 47.4
Worst performers		
JP Morgan	−37.1	+ 40.2
Westinghouse	−36.1	− 57.9
Walt Disney	−33.8	+105.0
Goodyear	−33.6	− 1.9
Allied Signal	−33.4	+ 27.7

UK: Best performing stocks

	Crash change %	Pre-crash to date %
Assd. Brit. Foods	−17.3	+23.7
J Sainsbury	−18.3	+86.1
Bass	−18.5	+11.8
Argyll Group	−18.6	+72.1
Whitbread	−18.8	+29.3
Worst performers		
RTZ	−51.0	+15.8
Stndrd Chartered	−48.7	−32.4
Reed Intl.	−48.3	− 5.5
British Aerospace	−47.0	−73.8
Cookson Group	−46.5	−60.4

Germany: Best performing stocks

	Crash change %	Pre-crash to date %
RWE	− 8.0	+63.8
Veba	−15.6	+13.9
Henkel	−17.9	+12.7
Commerzbank	−22.4	−13.5
Kaufhof	−25.1	−18.6
Worst performers		
Metallgesellschaft	−49.4	−15.0
BMW	−46.5	−26.1
MAN	−43.8	+40.7
Daimler-Benz	−42.9	−47.2
Schering	−42.2	+24.6

Japan: Best performing stocks

	Crash change %	Pre-crash to date %
Tokyo Steel	+8.6	+ 28.5
Maeda Road	+1.7	+ 61.0
Mitsui Eng.	−2.5	+ 59.7
Chubu Electric	−2.9	− 18.5
Hitachi Zosen	−3.0	+140.3
Worst performers		
Daiwa Securities	−39.3	−70.4
Murata	−37.8	−30.9
Nomura Securities	−35.6	−63.6
Amada	−35.3	−21.5
Kyocera	−34.7	−40.8

Crash period defined as 16th October close (15th October in USA) to post-crash 1987 low. Source: Datastream. Rankings derived from members of indices used for charts

Moves to protect futures may prevent a repeat of the past

FIVE years ago today, on Black Monday, the Dow Jones Industrial Average plummeted 508 points as the US stock markets flirted with a complete meltdown.

In an eerie reprise of that day, two weeks ago the Dow fell 104 points in the first two hours of trading of a Monday morning. The decline was so rapid some traders on Wall Street began to talk about a reprise of 1987.

But this time, the markets pulled back from the brink, and the *Dow finished the day 22 points* lower. After the dust had settled, a good deal of the credit for halting the slide was given to "circuit breakers" that were introduced to limit volatile prices swings after the 1987 crash.

An examination of that day's trading patterns, however, revealed that the New York Stock Exchange's main circuit breaker – which curbs computerised programme trading by limiting use of the NYSE's automated order execution system whenever the Dow falls by more than 50 points – failed to stem the decline. The Dow crashed through the 50-point loss mark almost without pausing.

What saved the day were the circuit breakers protecting the futures markets in Chicago. Although the first of Chicago's breakers – the rule that stops futures prices from trading lower *for 30 minutes after the key S&P* 500 stock index contract has fallen more than 12-points – did not hold, traders proved unwilling to push prices so low that they triggered the next breaker, which comes into operation when the S&P contract drops 20 points.

That morning, futures prices began to recover when the S&P contract was down 19.9 points, a hair's breadth away from setting off the second circuit breaker. Once futures rallied, the cash markets in New York followed suit, and the Dow began a slow ascent from its unnerving 104-point loss. The NYSE's backstop circuit breakers – which halt trading for one hour after a 250-point drop and for another two hours after a 400-point drop – were never needed.

Although circuit breakers sometimes do their job, they do not offer complete insurance against a repeat of October 19, 1987. Non-computerised selling does not stop when the Dow falls 50 points, and there is nothing to prevent the market from falling further once the one- and two-hour halts are over.

As Mr Laszlo Birinyi, one of Wall Street's most well-known market analysts, says of circuit breakers: "All they do is slow the selling, not stop it. It's like telling a drunk driver that he cannot use third gear any more. So he just uses first and second gear, which makes him no less dangerous."

Moreover, the measures introduced since 1987 have done nothing about the potentially harmful link between the cash and futures markets. The latter has long had the potential to inflict great damage on the equities market. The 104-point sell-off two weeks ago, which was sparked by "extraordinary" selling of futures in Chicago, proved how much damage futures prices can do.

One answer to the problem of having two separate, equally-volatile markets trading securities which by design are inextricably linked, is to create a single regulator. Proponents of such a solution have called for the Securities and Exchange Commission to be given the responsibility for setting rules in both the cash and *the futures markets.*

But political turf battles between regulators in Washington DC have put paid to moves to create a single authority.

Fortunately, the introduction of circuit breakers was not the only thing about the market that changed after 1987. Some of the trading strategies and techniques that created so many problems five years ago, such as computerised programme trading, index arbitrage and portfolio insurance, are much less influential today.

Programme trading still goes on but it is not the force it once was

Programme trading still goes on, but it is not the force it once was. NYSE figures show that programme trades currently account for between 7 and 8 per cent of Big Board daily volume, compared with between 10 per cent and 12 per cent *a few* years ago.

Portfolio insurance, a strategy designed to hedge portfolios against big market declines that *was widely blamed for much of* the 1987 crash, is no longer widely used. And index arbitrage, another bugbear five years ago, is now practiced by many fewer trading firms than before, primarily because it is less profitable. Merrill Lynch, for example, abandoned the strategy in 1989.

Patrick Harverson

Questions over the transfer of western skills

Economics Notebook
By Peter Norman

SINCE the fall of the Berlin Wall, *the transfer of western* expertise has been seen as vitally important for the creation of democratic, market-based economies in former communist states.

But in the case of the newly-independent states of the former Soviet Union, efforts to provide policy advice and economic *know-how are running into trouble.*

"Technical assistance" is the catch-all term used to describe the provision of such advice and *expertise* by the industrialised nations to countries such as Russia, the other former communist states and countries *in the developing world.* For the former Soviet republics, which are having to build their market economies and democracies from scratch, it covers a wide spectrum of activities.

Earlier this year two international conferences – at Washington in January and Lisbon in May – identified 12 priority areas for technical assistance to the former Soviet Union. These ranged from support for the creation of democratic systems to micro-economic goals such as the restructuring of small and medium-sized enterprises, the development of *financial services and the* conversion of defence industries to peaceful uses and social policy issues such as the provision of adequate health, housing and social security.

On October 29 and 30, a follow-up conference of ministers and senior officials from some 70 donor and recipient countries and from interested inter*national organisations will* gather in Tokyo. It is likely to face calls for a big shake-up in the present system of transferring expertise.

Ahead of the meeting, the Organisation for Economic *Co-operation and Development* has been assessing the provision of technical assistance and humanitarian aid to the former USSR and found it wanting. The OECD is in a unique position to judge because since July 1 it has been operating a computerised electronic data system, known as the "register", which enables it to act as a clearing house of information on technical assistance and humanitar*ian aid to the region.*

The register contains information on about 750 requests from the republics for assistance and on *2,600 activities* that donors have undertaken or offered. Although the OECD admits that it is not yet perfect, the register has exposed gaps in the donors' aid efforts and mis-matches between what *the republics want* and what the industrialised countries are prepared to offer.

- In the field of humanitarian aid, insufficient help has been given in the areas of shelter, housing and construction. On the other hand, there have been cases of duplication in the provision of food and medicine to Russia.
- *The OECD says there are* significant gaps in the provision of technical assistance to tackle environmental problems. The number of projects aimed at supporting democratic institutions is also small.
- *The recipient countries* would like more advice on how to run their health services and how to convert their defence industries to peaceful uses. They are less interested than the donors in offers of assistance to develop management skills or comprehensive economic reform plans.

Both recipients and donors seem unhappy about aspects of the delivery of the assistance. The newly-independent states complain about being overrun by consultants and self-styled experts in missions that lead to no results. Western capitals *have come to dread the arrival* of visitors from the former Soviet Union who seem more intent on shopping than securing expertise.

Beyond these irritants, there is a bigger question over whether the strategy for delivering technical assistance is correct. The Washington and Lisbon conferences adopted a "horizontal" *approach of pro*viding a large amount of advice and expertise across the former Soviet Union as a whole. It is now generally recognised that this was a mistake. The break-up of the Soviet Union into independent republics demands a more country-specific, case-by-case approach.

There are signs that the Tokyo conference will go down this route. The Group of Seven *nations'* economic summit in July agreed that "country consultative groups" should be set up for the new states. The idea is that the groups would bring interested international organisations such as the World Bank, the International Mone*tary Fund, the OECD, the* European Commission and the European Bank for Reconstruction and Development and big *donor countries such as the* US, Germany, France and Britain into close relationships with the individual republics to encourage structural reforms and co-ordinate technical assistance.

The European Commission, which is the biggest single provider of a technical assistance to the former Soviet Union, is going down the country-specific route.

It is opening national co-ordinating units in each of the *republics to review the* requests for technical assistance locally before submitting them to Brussels.

But nobody is pretending that the future will be easy. Plans to create a technical assistance support group for *Russia under the guidance of* the World Bank have run into difficulties.

Although the bank has more experience than other bodies in handling transfers of expertise, the Russian authorities feel insulted that they will be overseen by what they perceive as a development aid agency.

According to aid experts, technical assistance is the most staff-intensive type of aid provision.

Matching supply to demand *is extremely difficult and pro*grammes are usually "underdesigned".

Past experience in providing technical assistance to other regions is not encouraging and may explain the rapid onset of disenchantment in the case of the former Soviet states.

In 1990, a World Bank study found that many years' efforts to transfer expertise to Africa had been "highly frustrating" for donors and recipients alike. The efforts in sub-Saharan Africa were "not resulting in the expected improvement of skills and abilities of individuals or in the enhanced capacity of institutions", it said.

Terry Smith to join Collins Stewart

By Robert Peston in London

MR Terry Smith, the analyst embroiled in a legal dispute with UBS Phillips & Drew over the publication of a book on UK company accounts, is today joining one of London's youngest stockbroking firms, Collins Stewart.

He will be joined by his longstanding colleague, Mr David Pountney, who resigned *on Friday from his job at P&D* as analyst of merchant banks and financial companies.

Last Thursday, Mr Smith's *final appeal against dismissal* from his job as head of UK research at P&D, owned by Union Bank of Switzerland, was turned down.

"I have now been formally sacked", he said.

Collins Stewart is 51 per cent owned by the merchant bank, Singer & Friedlander, with the remaining shares held by its four founders, led by Mr Leigh Collins and Mr Andrew Stewart.

Mr Smith's dispute with *P&D reinforced worries that* the creation of integrated financial houses, combining stockbroking and merchant banking, had threatened analysts' independence.

"I am joining Collins Stewart in part because there should be fewer conflicts of interest", Mr Smith said. The firm is primarily an agency stockbroker. Set up on May 1, 1991, it specialises in broking UK equities.

Mr Smith will once again work as an analyst of banks, having been rated the leading analyst in that sector in polls of investment institutions from 1984 to 1990.

Del Monte to be sold for £360m

By Angus Foster in London and Philip Gawith in Johannesburg.

DEL MONTE Foods International, the canned fruit and juices company, is being sold to a joint venture between Royal Foods and Anglo American Corporation, both of South Africa, for £360m - roughly 14.5 times historical earnings.

DMFI, which is owned by institutions and management following a £229m buy-out in 1990 in the wake of the break up of RJR Nabisco, announced plans in February for a stock market listing.

Shareholders, however, led by Charterhouse Bank with just over 50 per cent, have decided on a speedy sale at a guaranteed, if slightly lower, price because of uncertainty in the stock market, according to Charterhouse.

DMFI is unrelated to the Del Monte fresh fruit business, which was bought by Polly Peck, the fruit and electronics company which collapsed in 1990.

The Royal group, which is led by Mr Vivian Imerman and is involved in foods and chemicals, has a market capitalisation about half the size of the DMFI purchase price. Royal is eventually expected to seek a listing for part of the group in London.

Royal Foods last year bought DMFI's South African fruit canning subsidiary, which still supplies about half DMFI's deciduous fruits such as peaches and apricots under a long term supply contract.

Anglo's involvement is in line with its aim to get into higher value added areas of business, and breaks new ground by moving away from cyclical commodities towards consumers.

However, Mr Graham Boustred, deputy chairman of Anglo, yesterday played down talk of an important strategic shift saying: "It's quite difficult to shift a group of Anglo's size."

Anglo and its associate, De Beers, currently have a joint market capitalisation of about R36bn (£7.2bn).

The deal is also an interesting collaboration between Anglo, the pinnacle of South Africa's Anglo-Saxon business establishment, and the youthful, entrepreneurial and distinctly Jewish Royal group.

The acquisition is conditional on regulatory clearance in South Africa, especially from the Reserve Bank, and successful completion of fund raising by Royal, which met with banks over the weekend.

Anglo has committed to invest R400m directly.

MGN agrees plan over Donohue stake

By Raymond Snoddy

MIRROR GROUP Newspapers is close to realising a lot of the value of its holding in Donohue, the loss-making Canadian forest products group.

MGN reached an agreement with Quebecor, the controlling shareholder in Donohue, over the weekend for a series of transactions that would tidy up another small part of the empire of the late Mr Robert Maxwell.

If all goes according to plan it is estimated that MGN will at least clear the book value of the Donohue stake which in June 1992 was in the newspaper group's accounts at £38.5m.

MGN at present has a 49 per cent stake in a private Canadian company, Mercor, whose sole asset is a 53.8 per cent holding in Donohue, a company with a market capitalisation of £225m. The controlling stake in Mercor is held by Quebecor, the Canadian publishing and printing group. The stake dates back to 1987 when Mr Maxwell set up a joint venture with Quebecor.

Under the deal Donohue is offering to exchange its existing 20 vote shares for new Donohue shares with only one vote in return for a 12 per cent premium of new shares. The aim is to allow Mercor through Quebecor to retain voting control of Donohue without MGN. The 12 per cent premium will mainly come from shares now held by MGN.

Following the offer Donohue and Mercor will offer for sale 6m units, each containing a share and a warrant to buy a share. This would be made up of new shares issued by Donohue and the existing MGN shares in Mercor.

Mercor will pay MGN the proceeds and if warrants are not exercised MGN will own directly Donohue shares reserved for the warrants. After the public issue MGN will hold directly between 1.78m and 2.34m Donohue shares which can be sold six months after completion.

The MGN board says the transaction should give the company greater flexibility to dispose of its Donohue stake. If the public issue is completed it would "provide for an early disposal of a substantial part of MGN's interest."

Ptarmigan takes first step into engineering

By Peter Pearse

SHARES IN Ptarmigan were suspended - for the second time this year - at 2p on Friday, pending shareholders' approval of a reorganisation.

The group, which operates hotels, makes artificial flowers and children's hats, publishes illustrated books on cookery, crafts and cake decoration, has taken the first step in a complete change of activity. It is currently valued at £300,000.

It has conditionally agreed to acquire three engineering companies - Thomas Eaves, HA Birch and Airmatic Engineering - from Prospect Industries for £6.5m nominal of 4 per cent (gross) convertible redeemable secured loan stock. The plan is to dispose of the existing Ptarmigan businesses and acquire engineering companies in niche markets.

Ptarmigan also unveiled reduced pre-tax losses of £735,000 (£2.67m restated and after £1.95m amortisation of goodwill) and losses per share of 5.07p (22.92p) for the year to June 30. Turnover was £3.26m (£4.52m) and operating losses came to £444,000 (£169,000).

Mr Philip Wilbraham, chief executive of Prospect and its chairman since June 8 when Mr Richard Richardson resigned and was appointed executive chairman of Ptarmigan, said the three companies were "peripheral" to his company's core. The disposal - subject to the approval of both sets of shareholders - would reduce Prospect's borrowings by £800,000.

He said full conversion of the loan stock would give Prospect 52m Ptarmigan shares, or 77.99 per cent of its equity. In that case the Takeover Panel would waive the obligation on Prospect to make a general offer.

Mr Wilbraham was non-executive chairman of Ptarmigan until June 8, when Mr Richardson arrived. On the same date Mr Colin Davies, chief executive and finance director of Ptarmigan, resigned as non-executive director of Prospect.

Ptarmigan's statement said: "The acquisition agreement does not contain the usual level of warranties and indemnities that a purchaser would expect to obtain when purchasing a private group of companies. However . . . the necessary conditions for continued bank support of Ptarmigan may not be fulfilled and facilities not made available should the acquisitions not be completed and, as a consequence, the company may be unable to continue trading."

Costain to dispose of Australian coal offshoot

By Andrew Taylor, Construction Correspondent

COSTAIN, the troubled UK construction group, is expected to announce details in the next few days of the sale of its profitable Australian coalmining subsidiary.

Favourite to acquire the business is Peabody Coal, a subsidiary of Hanson Group.

Costain is expected to raise £120m-£130m from the sale, after taking into account the transfer of some £40m worth of local debt owned by the Australian subsidiary.

Costain needs the cash to reduce net debt of £292m, including £52m of off-balance sheet loans due on the Spitalfields commercial property joint venture in central London.

Total debt represents gearing of more than 100 per cent based on shareholders' funds of £276m at the end of last year.

The sale is expected to reduce gearing to between 50 and 70 per cent depending upon how the deal is structured and what further property provisions the group decides to make at the end of this year.

Costain, which has been hit hard by the collapse of UK residential and commercial property markets, incurred a £69.2m pre-tax loss last year. It has already sold its UK commercial property portfolio for £101m in a bid to reduce borrowings.

Originally it had planned to retain 51 per cent of the Australian coal mining business, after floating the company. It has now decided to sell the whole subsidiary.

Peabody became part of Hanson when the conglomerate acquired Consolidated Goldfields at the end of the 1980s.

The attraction of Costain's coal mines in New South Wales are their long term supply contracts with local electricity generators.

Storehouse in talks for sale of Habitat

By Philip Rawstorne

STOREHOUSE, the UK retailing group, is negotiating the sale of Habitat, its home furnishing chain, to Ikea, the Swedish furniture retailer.

Talks are also being held with Sears, the retail and mail order group, which is understood to be interested in buying Richards, the Storehouse women's wear business.

City analysts estimate the two deals could raise up to £70m for Storehouse, though the negotiations have yet to resolve a number of "issues of substance", according to one source.

Habitat, founded by Sir Terence Conran, was one of the high street successes of the 1960s and early 1970s. Its cheap, well-designed furnishings epitomised the lifestyle of young professional people.

It failed, however, to keep pace with the retail revolution it helped to create. In the past two years, it has closed a quarter of its UK stores and losses have amounted to more than £20m.

Habitat's French operations, in which Au Printemps, the French retailer, was recently reported to be interested, are profitable: but the US business lost £7.7m last year.

Ikea has prospered in the UK since it opened its first superstore at Warrington five years ago. It was ranked the country's sixth largest furniture retailer last year despite having just three stores. Since then, it has opened a fourth at Gateshead, and is due to open another at Croydon next month. Its out-of-town stores, with facilities such as children's playgrounds and family restaurants, represented "what Habitat might have been," said one analyst.

Storehouse declined to comment on the Habitat disposal yesterday but Mr David Dworkin, who became chief executive of Storehouse in July, has indicated that the core of the group's future operations would be BhS and Mothercare, each serving mass markets in clothing.

Storehouse, which showed signs of recovery with pre-tax profits of £15.8m last year, is expected to register a small loss during the first half of the current year.

CWS chief hits out at government

By John Thornhill

MR LENNOX FYFE, chairman of the Co-operative Wholesale Society, delivered a blistering attack on the government's economic policy when reporting a sharp drop in interim profits at the weekend.

He said prospects of any real upturn in the retail sector still seemed very far off. "Indeed, the UK economy over the last month appears to have been propelled by an indecisive government over the abyss into a state of free fall," he said.

The UK's biggest co-operative organisation, which has retained its strong links with the Labour party, blamed the severity of the recession for a fall in trading profits from £10.1m to £5.3m in the six months to June 27. Sales rose from £1.43bn to £1.49bn.

The CWS, which is the UK's biggest farmer as well as a food manufacturer, wholesaler to the rest of the co-operative movement, and a significant retailer, said there had been some encouraging developments - particularly in retail, travel and funeral services, and agricultural businesses.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Campbell Soup (US)	Arnotts (Australia)	Food	£270m	Industry globalisation continues
Cimentos de Portugal (Portugal)	Corporacion Noroeste (Spain)	Cement	£131m	Stake nears 98%
Fitzwilton (Ireland)	Wellworth (UK)	Food retailing	£122m	Isosceles disposes finally
Veba (Germany)	Sydkraft (Sweden)	Power generation	£116m	Veba to be biggest holder
Medeva (UK)	Armstrong Pharmaceuticals (US)	Pharmaceuticals	£32m	Medeva's rapid growth continues
Lawson Mardon (Canada)	Cartonajes Suner (Spain)	Packaging	£30m	Cragnotti reshuffle
Robert Bosch (Germany)	Unisia (Japan)	Car components	£25m	Stake strengthens Nissan ties
Philips (Holland)	Pieco Electronics and Electricals (India)	Electronics	£7m	Lifting stake to 51%
Aesculap (Germany)	Chifa (Poland)	Surgical instruments	£2m	Privatisation deal
Kraft General Foods (US)	Freia Marabou (Norway)	Confectionery	£870m	Kraft wins control

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 18.10.92 / Final Prices for Trading on 20.09.92

1/2 hour period ending	Pool purchase price £/MWh (provisional)	Pool purchase price £/MWh (final)	Pool selling price £/MWh (final)
0030	17.58	20.29	22.20
0100	17.59	17.58	17.56
0130	17.66	17.58	17.58
0200	20.65	17.70	17.70
0230	25.86	20.29	22.20
0300	25.86	20.29	22.22
0330	20.89	17.58	17.58
0400	20.89	17.56	17.55
0430	20.89	17.55	17.55
0500	20.89	17.55	17.55
0530	20.68	20.42	22.41
0600	20.38	17.52	17.52
0630	20.38	17.48	17.48
0700	20.38	17.49	17.48
0730	21.04	17.49	17.48
0800	28.01	20.42	22.36
0830	28.01	21.00	22.93
0900	28.01	21.00	22.92
0930	21.04	21.00	22.92
1000	21.04	21.00	22.81
1030	21.49	22.65	24.60
1100	24.56	25.40	27.42
1130	24.25	25.40	27.41
1200	24.56	25.81	27.83
1230	28.01	25.81	27.82
1300	28.01	25.81	27.82
1330	24.56	25.40	27.42
1400	24.25	24.21	26.20
1430	21.94	21.09	23.00
1500	21.49	17.66	17.66
1530	17.72	17.66	17.66
1600	17.72	17.66	17.66
1630	17.71	17.66	17.68
1700	17.71	21.00	22.94
1730	21.49	21.09	23.01
1800	23.47	21.09	23.01
1830	24.71	21.09	23.00
1900	28.01	25.43	27.49
1930	28.01	25.19	27.21
2000	28.01	28.01	30.06
2030	24.91	28.01	30.05
2100	24.91	28.01	30.06
2130	23.74	25.43	27.43
2200	22.09	25.43	27.42
2230	21.49	23.36	25.31
2300	21.04	22.62	24.58
2330	17.69	17.76	17.76
2400	17.66	17.71	17.71

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no [illegible]
*NGC Settlements Limited 1992

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 19.10.92 / Final Prices for Trading on 21.09.92

1/2 hour period ending	Pool purchase price £/MWh (provisional)	Pool purchase price £/MWh (final)	Pool selling price £/MWh (final)
0030	17.46	17.71	17.71
0100	17.58	17.71	17.71
0130	17.79	17.70	17.70
0200	20.86	17.70	17.70
0230	28.01	17.70	17.70
0300	28.01	17.69	17.69
0330	28.01	17.69	17.69
0400	22.34	17.69	17.69
0430	21.09	17.69	17.69
0500	17.70	17.69	17.69
0530	17.71	17.69	17.69
0600	17.71	17.49	17.49
0630	20.81	19.94	22.49
0700	23.91	21.63	24.24
0730	24.87	25.45	28.15
0800	30.33	25.30	27.93
0830	31.29	28.01	30.58
0900	31.69	28.02	30.68
0930	31.10	28.03	30.68
1000	31.04	28.03	30.68
1030	30.86	28.03	30.67
1100	30.09	25.49	28.06
1130	28.60	28.06	30.70
1200	28.41	28.10	30.74
1230	28.29	28.10	30.74
1300	28.16	28.07	30.71
1330	25.51	25.48	28.02
1400	22.13	25.47	28.01
1430	21.71	25.46	28.00
1500	21.71	25.46	28.00
1530	21.71	25.46	28.00
1600	21.72	25.48	28.02
1630	24.86	28.07	30.71
1700	24.93	28.09	30.73
1730	28.17	28.07	30.70
1800	28.30	28.03	30.65
1830	28.75	25.45	28.03
1900	31.14	25.00	25.00
1930	30.96	28.01	30.63
2000	28.20	28.01	30.63
2030	24.82	28.00	30.64
2100	24.81	24.82	27.38
2130	24.81	24.82	27.41
2200	24.32	23.16	25.72
2230	23.82	23.03	25.60
2300	23.82	22.67	25.24
2330	23.82	22.12	24.70
2400	17.72	17.76	17.76

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no [illegible]
*NGC Settlements Limited 1992

CONTRACTS & TENDERS

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FT SURVEYS

COMPANIES AND FINANCE

Volvo board to consider cuts plan next month

By Robert Taylor in Stockholm

VOLVO, the Swedish automotive group, is losing SKr2bn ($368m) annually and is preparing a crisis package to cut production capacity, Mr Soren Gyll, chief executive, said.

The package includes closing two of Volvo's three Swedish car assembly plants and reducing costs by matching supply more closely with demand.

The board will consider the contraction programme next month.

Mr Gyll also says Volvo cannot afford to increase wages next year. The company's finances deteriorated this autumn, although had not been affected by the turbulence on the international exchanges.

In August, Volvo reported an operating losses of SKr835m for the first six months.

Mr Gyll told local business leaders in Gothenburg that even if the whole of Volvo's car assembly production in Sweden were concentrated at its Gothenburg plant, it would still suffer over-capacity. This was because demand for its models in the domestic market had fallen by two-thirds.

"The good times at the end of the 1980's will not return," he said.

■ MODO, the Swedish forestry group, suffered a SKr811m loss (after financial items) for the first eight months of the year. This contrasts with a SKr311m profit in the same period of 1991.

In the second four months of the year, the loss increased to SKr476m from the SKr335m deficit made in the January to April period.

In a forecast for the rest of 1992, Mr Bernt Löf, chief executive, said unsettling market conditions would continue and this would mean a continuing large deficit for MoDo.

Sales fell to SKr10.66bn from SKr11.81bn, while losses per share emerged at SKr17.60 compared with earnings of SKr10.20 a share a year earlier.

Mr Löf said the competitive position of Sweden's forestry industry had worsened dramatically during the year because of exchange rate difficulties.

■ TRELLEBORG, the Swedish mining and industrial group, made a small profit (after financial items) of SKr11m for the first eight months of the year, compared with a SKr680m profit for the same period in 1991.

Sales rose slightly to SKr14.96bn from SKr14.11bn, but this was due to the consolidation of its acquisition of Munksjo at the end of last year.

The company said that in the light of a continuing weak market for its products and the fall in metal prices in recent weeks it expected a negative result for the rest of 1992.

■ UNIDANMARK, Denmark's second-largest banking group, said it would issue a statement to the stock exchange today following a television report claiming it plans to dismiss 15 per cent of its staff, writes Hilary Barnes in Copenhagen.

The bank expects to incur losses of about DKr2bn ($357m) this year.

Stanbic unveils rights issue to raise R650m

By Philip Gawith in Johannesburg

STANDARD Bank Investment Corporation (Stanbic), South Africa's largest banking group by market capitalisation, is raising about R650m ($232m) through a rights issue which will enlarge the bank's capital base by 10 per cent.

Shareholders will be offered 10 new ordinary shares for every 100, at R60 each. The shares closed at R70.50 on Friday, R6.50 off their May peak.

Mr Eddie Theron, managing director, said that although the group was adequately capitalised for existing regulations, it had always enjoyed excess capital. This had recently dropped due to expenses incurred in setting up a London office and paying £10m ($17m) in May for British merchant bank Brown Shipley Holdings.

Mr Theron said it was better to go to the market now than be forced to go when circumstances were less favourable. There were no immediate plans for using the cash.

He said that in spite of recent turbulence on the Johannesburg Stock Exchange – down 22 per cent from its June peak – there was still investor-appetite for quality equity paper.

Stanbic is the most highly-rated of South Africa's main banking groups. It is trading on a price/earnings ratio of 13.7, and with a market capitalisation of R7.5bn is the country's largest bank on this measure.

Shareholders holding more than 70 per cent of the issued share capital have said they would follow their rights. Liberty Life will underwrite the balance of the offer.

The group is also negotiating to buy the African interests of ANZ Grindlays.

Laidlaw returns to the black

By Robert Gibbens in Montreal

LAIDLAW, the Ontario-based North American waste management and transportation group, has reported a rebound in fourth-quarter profits, helped by higher margins in some sectors, aggressive marketing and cost-cutting.

Earnings for the three months ended August 31 were US$24.9m, or 9 cents a share, against losses of US$465.6m, or US$1.84 a share, a year earlier, including a special US$469m charge covering a writedown of Laidlaw's 28.4 per cent stake in ADT. Revenue was up 5 per cent to US$424m.

Profits for the full year were US$132.4m, or 50 cents a share, against losses of US$344m, or US$1.41 a share, after special charges the year before. Revenues rose 2 per cent to US$1.9bn. There was an average 8 per cent more shares outstanding in fiscal 1992 compared with 1991.

Laidlaw has restructured drastically in the past 18 months.

BRAMALEA, one of two big property groups controlled by Toronto's Bronfman family, is making a new effort to persuade holders of C$525m senior debentures to accept its five-year financial restructuring, writes Robert Gibbens.

A committee representing the debenture-holders has blocked the company's plan, saying it is unrealistic. The scheme hinges on selling half of Bramalea's C$6bn (US$4.8bn) land and commercial property portfolio.

Secured creditors would get notes and common stock, effectively giving them majority control.

Mr Marvin Marshall, president, has said that Bramalea has developed a contingency plan to provide C$65m extra cash-flow in 1993-1994. The restructuring plan is viable, he insisted.

Bramalea is "well advanced" in the sale of its 50 per cent interest in a big Toronto stores mall. Industry sources say Trizec, 72 per cent owner of Bramalea, will be the buyer.

Pre-tax loss at Nokia deepens to FM277m

By Christopher Brown-Humes in Helsinki

NOKIA, the Finnish telecommunications and electronics group, has reported deeper pre-tax losses to FM277m ($59m) for the first eight months, compared with FM206m a year earlier.

However, the figures disguise a strong improvement in the group's performance in the second four months of the year, when it achieved taxable profits of FM3m, compared with losses of FM229m for the same period a year before.

Sales for the first eight months rose to FM9.96bn from FM9.55bn, underpinned by an 8 per cent rise in sales from May to August.

Mr Jorma Ollila, Nokia president, said the turnround in the company's performance got under way in May. He attributed it to strong growth in sales and profits in both the mobile phones and telecommunications divisions, and to last November's 12 per cent devaluation of the markka.

The problem area remains the group's consumer electronics division, which made a "substantial" loss due to the recession and price competition.

Mr Ollila said Nokia would earn an operating profit for the whole year, wiping out in the final four months the FM152m operating loss incurred in the first eight months.

Kodak's divestment costs beat forecast

By Karen Zagor in New York

EASTMAN Kodak, the world's biggest producer of photographic equipment, has unveiled a third-quarter after-tax charge of about $140m, or 43 cents a share, substantially higher than the $45m, or 14 cents, many analysts had expected.

The impact on Kodak's full-year earnings will be more than offset by benefits of about $150m, or 46 cents a share, from adopting a new accounting standard for deferred tax. Kodak said the change would be recognised from the beginning of 1992.

The Rochester, New York-based company said about half of the third-quarter charges were linked to previously-announced plans to divest or otherwise exit from several non-strategic businesses.

Another 25 per cent of the costs came from additional employees leaving under Kodak's early retirement programme.

The remaining 25 per cent covered the costs of rationalising the group's overseas operations – primarily the consolidation of its imaging business in France, Japan and Brazil.

In 1991, Kodak took restructuring charges of $1.03bn partly to cover early retirements this year. But workers responded more enthusiastically than expected to the programme, which offers full retirement benefits and an attractive health care package.

Excluding the charges, analysts expect Kodak to earn more than $1 a share in the third quarter, against last year's third-quarter net loss of $118m, or 37 cents, including restructuring charges of $435m.

Gillette climbs on strong progress from razors side

By Nikki Tait in New York

STRONG progress in its core razors business helped Boston-based Gillette, which is seeking to buy the UK's Parker Pen business, to report profits after tax of $128.2m in the third quarter to end-September.

This compares with $104.1m in the same period a year earlier, with sales rising from $1.14bn to $1.25bn. Earnings per share were 10 cents higher, year-on-year, at 58 cents.

The third-quarter figures bring Gillette's after-tax profits for the first nine months of 1992 to $374.5m, compared with $296.3m in the same period of 1991.

Gillette said that both sales and profits of its core blade and razors business grew strongly during the quarter, with profits from Braun products rising "substantially". Sales and profits in the Oral-B dental products division also made significant advances.

Recession blamed for Japanese bankruptcy

By Charles Leadbeater in Tokyo

THE Japanese downturn has claimed its second bankruptcy victim among listed companies this year, after Daiichi Spinning, the textile group filed for court protection with liabilities of about Y100bn ($834m).

The Daiichi bankruptcy follows that of Lec, a Tokyo-based manufacturer of household sundries.

Meanwhile, the Osaka Stock Exchange, where Daiichi is listed on the second section, has launched an investigation into insider trading in its shares last week after an unusual surge in trading.

The bankruptcy of even a medium-sized listed company in Japan suggests the downturn is creating growing strains in relations between banks and industrial clients. Traditionally, banks have helped industrial customers through downturns in demand by providing renewed credit.

However, many banks have been hit themselves by a rapid growth in non-performing loans on property lending. Some may now be taking a tougher approach to troubled industrial clients. Daiichi's main bank is Sakura Bank.

Daiichi's filing for court protection under corporate rehabilitation law, the Japanese equivalent of the US Chapter 11 procedures, marks the end to a desperate financial struggle to stave off bankruptcy.

S Africa rescues gold mine with R30m loan

By Philip Gawith

THE South African government is to assist the troubled Harmony gold mine, with a commercial loan up to a maximum of R30m ($10.7m).

In recent years the government has followed a strict policy of not offering state aid to marginal mines unless they have potential to become viable.

Harmony is by far the largest of South Africa's marginal gold producers threatened with closure because of the weak gold price.

Harmony did not return to profit during the September quarter as predicted three months ago. Mr John Turner, chairman of Rand Mines gold division, said this was because the grade of ore predicted in the rationalisation programme had not been achieved.

He said, however, that recent productivity measures and the state aid should ensure the mine's survival.

The mine incurred operating losses of R7.9m in the quarter compared with R47m in the June quarter, which included extraordinary retrenchment costs.

The other three mines in the group reported improved results for the September quarter compared with preceding three months. ERPM reduced its net losses to R3.4m from R6.07m, Durban Deep lifted net profits marginally to R1.08m from R1m and Blyvooruitzicht earned net profits of R1.5m compared with losses of R274,000.

The state appears to have been persuaded to assist Harmony by the great lengths the mine is going to ensure its own survival.

Accor hit by debt costs of Wagons deal

By Alice Rawsthorn in Paris

ACCOR, the expansive French hotel and travel group which recently took over its Belgian competitor, Wagons-Lits, in a controversial bid, suffered a sharp fall in first-half net profits.

The group, which saw net profits plunge to FFr137.2m ($27.4m) for the six months to June from FFr427.6m a year earlier, has been hit by the slowdown of the European travel business and by the increase in its own net debt due to the Wagons-Lits deal. The addition of Wagons-Lits brought about an increase in turnover to FFr14.74bn from FFr7.28bn.

However, Accor says that without the Belgian acquisition, its interim sales would have risen by 4.6 per cent, just ahead of France's annual inflation rate, to FFr7.6bn.

Similarly, net operating profits, which slipped to FFr202m from FFr288.3m because of Wagons-Lits' inclusion, would have been roughly static without it.

Finnish guarantee fund prepares banking merger

By Christopher Brown-Humes

FINLAND'S government guarantee fund is preparing to merge Skopbank and the Savings Bank of Finland.

The move is seen as a preliminary step towards a wider restructuring of Finnish banking and follows the failure of merger talks last week between Unitas and Skopbank.

Mr Jorma Aranko, director-general of banking supervision, said the merger was a streamlining operation designed to produce greater efficiency in the troubled banking sector.

Skopbank, which on Thursday announced a FM2.2bn ($472m) loss for the first eight months, was rescued by the Bank of Finland in September 1991 and transferred to the state's guarantee fund in June.

Savings Bank of Finland will be converted into a limited liability company prior to the merger. Savings Bank of Finland was formed last month following the merger of 41 savings banks accounting for 80 per cent of the balance sheet total of all the savings banks. Skopbank is the savings banks' central bank.

News Corp scales down debt offering

NEWS Corp, the international media group, has cut its planned debt offering from $1bn to $850m, Reuter reports from New York. The group priced the senior debt securities with the interest rate on $550m of senior notes due October 15 1999 to be 9¼ per cent. The rate on $300m of senior debentures due October 15, 2012 will be 10⅛ per cent.

CANADIAN GOVERNMENT BONDS

Rollercoaster ride may turn even bumpier

CANADA'S bond market is on a wild ride.

Since early September, the yield on the benchmark 10-year government bond has swung between a 1992 low of 7.07 per cent and a peak of 8.05 per cent. The gap between three-year US and Canadian issues has seesawed between 107 and 309 basis points. Price changes of a dollar or two a day no longer raise eyebrows.

The market could become even more volatile over the next few weeks, with both direction and amplitude depending largely on the outcome of Canada's constitutional referendum on October 26. Mr Andrew Pyle, an analyst at *MMS International* in Toronto, predicts that yields could climb to new 1992 highs in the next few days as uncertainty about the vote mounts.

A Yes victory next Monday, endorsing the constitutional package known as the Charlottetown agreement, would almost certainly ignite a massive rally in Canadian bonds. Although the Charlottetown pact by no means defuses all Canada's political tensions, its acceptance would be a severe setback to Quebec separatists, and to the various other regional and special interest groups campaigning against the agreement.

Judging by opinion polls, the Yes side has made some gains in the past week, but the No forces remain well ahead in several key provinces, notably Quebec and British Columbia.

In the event of a No victory, holders of Canadian bonds will find themselves torn between a bearish *political outlook and generally* bullish economic trends.

The separatists are likely to push for an election in Quebec. If they win that, they have promised another referendum on the specific issue of independence for the francophone *province. At the very least, a* No vote next Monday will keep Canadians pre-occupied with the national unity issue for years to come.

Even so, bond market optimists argue that a thumbs-down to the Charlottetown agreement *will do no more* than delay and stretch out an inevitable resumption of the two-year slide in interest rates.

Canada's inflation is running at a miniscule annual rate of 1.3 per cent, the lowest among the leading industrial countries. Nor is it expected to accelerate much for at least the next 12 months, with real gross domestic product forecast to rise by no more than about 1.5 per cent this year and 3.5 per cent in 1993.

Foreign investors do face the risk that gains in bond prices could be wiped out by a further drop in the Canadian dollar, which has slid by more than 10 per cent from its November 1991 peak of 89.30 US cents.

The Bank of Canada has so far been reluctant to allow sudden, big falls in the currency. Many market players are confident that it *will continue to* smoothe the dollar's decline, if necessary by temporarily pushing up interest rates, as it has during the European currency crisis and the run-up to the referendum.

On balance, the prevailing view is that, whatever shocks are in store over the next few weeks, the long-term outlook for bonds remains favourable. Mr Clive Coombs, who runs a Canadian bond mutual fund for AGF Management of Toronto, says that "as long as you can sit tight for the next month, the fundamentals are tremendous."

Mr Coombs expects yields to fall by at least 50 to 75 basis points over the next 12 months. Burns Fry, the Toronto securities firm, concluded in its weekly fixed-income review last week that "any price weakness remains a buying opportunity".

Investors took that advice after Standard & Poor's cut its rating on Canada's foreign-currency debt last week from Triple A to Double A-Plus. Bond prices tumbled by as much as C$2 immediately after the announcement, but they had recovered the loss by last Friday.

Bernard Simon

UK GILTS

Surprise rate cut provides boost across yield curve

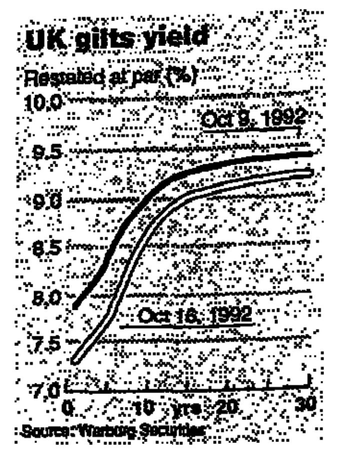
GILT-edged securities were among the main beneficiaries of the surprise cut in base rates, announced by the UK *government on* Friday. The reduction in base rates from 9 per cent to 8 per cent led to a rise in prices across the yield curve for most classes of gilts, adding to the momentum that has built up in the market over the past two weeks.

In that time, the difference between the yields for 10-year gilts and their equivalent French and German bonds have narrowed considerably, indicating heightened investor interest in the UK securities.

That perception has followed from a stream of gloomy news about mounting job losses and stagnant demand and production in the UK, adding to indications that the recession will last until well into 1993.

In this environment, the cut in UK interest rates added to demand for gilts at the short end of the yield curve. This was on the grounds that further cuts in borrowing conditions can be expected by the end of the year to get the flat economy moving again.

Somewhat more surprising was Friday's half-point increase in prices for long-dated gilts, especially as the pound wobbled after the base rate cut to close on Friday night down 1½ pfennigs on the day at just below DM2.45.



The longer-dated instruments were to some degree helped by the extra demand unleashed for the shorter maturing variety. But they also benefited from indications that, even with further cuts in credit rates, inflation pressures *will remain weak.*

Accordingly, the benchmark 8¾ per cent Treasury bond due in 1997 gained more than 2 points on the week to close on Friday night at nearly 104 for a yield of 7.76 per cent. This latter figure was about half a percentage point lower than a week previously.

At the long end of the yield curve, the 9 per cent stock maturing in 2012 saw an increase in price of nearly 1½ points, closing on Friday at nearly 99½ for a reduction in yield on the week of about 20 basis points – one-fifth of a percentage point.

The yield spreads between UK bonds and other countries' have narrowed dramatically. Two weeks ago, the difference between the yields on 10-year gilts and German bunds was 196 basis points while it is now about 140 basis points. Similarly, the difference for UK and 10-year French bonds has come down from 76 basis points to 38 basis points. In both cases, the yield gap is the lowest for several months.

On Friday, the Bank of England issued £400m of index-linked gilts, available from today, which are designed to appeal to investors worried about the onset of inflationary pressures.

These bonds are in three tranches: £100m of 2½ per cent securities due 2001; £150m of 2 per cent bonds maturing 2006; and £150m of 2½ per cent stock expiring 2016. The bank set the certified price for the 2½ per cent Treasury stock due 2001 at 155¾, the 2 per cent bond due 2006 at 155¼ and the 2½ gilt due in 2016 at 129.

However, countering concerns about inflation were government figures last week showing the underlying increase in average earnings in the year to August was 5.75 per cent compared with 6 per cent in the year to July, the lowest *rate of increase for 25 years.*

Peter Marsh

US MONEY AND CREDIT

Markets take the tug-of-war strain

A TUG-of-war between economic realities and political uncertainty is likely to dominate the US credit markets over the next few weeks as Wall Street nervously adjusts to the probability of a Democratic victory in the presidential election.

The elements of the tussle were neatly encapsulated in trading on Friday, when the government reported yet more grim economic news, which would normally be expected to give the credit markets a fillip.

The trade deficit widened *sharply in August, to $9bn,* due to the largest drop in exports in five years. A separate report showed industrial output in the US fell two-tenths of 1 per cent in September, the third drop in the last four months.

Coming on top of figures showing extremely weak – and consumer confidence-eroding – declining average weekly earnings, and poor early October car sales, Friday's statistics presented a picture of an economy growing very weakly.

Yet the price of the benchmark 30-year Treasury issue *fell ⅛ on Friday, with the yield* rising to 7.52, up from 7.5 per cent on Thursday and virtually unchanged on the week.

Bill Clinton: may try to speed federal spending

The reason for the yield upturn was a remark by Mr Bill Clinton, the Democratic presidential candidate. He said he was examining new ways to "bump this economy", and if elected might try to speed federal spending.

There was not that much new about the remark. Mr Clinton has said many times that his priority on taking office would be to introduce a *jobs programme. Democrats* , are said to be preparing for a legislative blitz in Mr Clinton's first 100 days of office.

The trouble for the credit markets is that little is known of Mr Clinton's precise plans, and Wall Street fears that a package of sharp fiscal stimuli *will greatly increase the size of* the budget deficit, and thus the government's borrowing requirement, while also reigniting *inflation.* Both would be bad for bond prices.

The market will, therefore, be prone to attacks of nervousness at every fiscal package rumour up to election day, on November 3 – and well beyond if Mr Clinton wins.

However, a Democratic victory might not prove quite so bad for the money markets as Wall Street fears. First, a stimulus from a Clinton administration would be constrained by the sheer size of the existing budget deficit. Second, a re-elected President Bush would almost certainly have to introduce an economic stimulus of his own.

Third, however rapidly legislation was prepared, it would take many months for the impact to feed through into economic activity. And finally, *the economy is so enfeebled,* and price rises are so restrained, that the inflationary genie is not about to jump out of its bottle.

Indeed, many economists still expect a further round of easing by the Fed. despite repeatedly dashed hopes of a *move over the past few weeks.* However, the bank may wait until after November 3, given the market's electoral jitters.

But if *Mr Clinton* were to win, a subsequent Fed easing could further widen the already record yield gap between the short and long ends of the market.

What remains uncertain is *just how much Clinton jitters* are already factored in to the long end, where over the past month bond yields have interrupted a downward trend, jumping sharply upwards from the year's low of 7.2 per cent, struck in early September.

For example, Mr Edward Yardeni, chief economist at C J Lawrence, expects the long *bond to jump to 8 per cent if* Clinton wins. Analysts at Donaldson, Lufkin & Jenrette are more sanguine, arguing that the back-up in rates will prove short-lived and that the long bond will reach 6.5 per cent by mid-1993.

Martin Dickson

CONTRACTS & TENDERS

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BRITISH TELECOM FIN 9 3/8 98	250	113¼	-⅛	6.67
CAISSE NAT ENERGIE 11 3/4 95	125	114¼	-⅛	4.82
CANADA 9 96	1000	110¼	-⅛	5.40
CANADA 10 95	500	113¼	-⅛	5.25
CANADIAN PACIFIC 7 1/2 96	100	103⅝	-⅛	6.23
CARIPLO 8 3/4 98	200	107¾	-¼	7.04
CATERPILLAR FIN SERV 0 94	140	93⅛	-⅛	4.91
CCCE 8 3/4 99	200	111	-⅛	6.72
CCCE 9 1/4 95	300	109¾	-⅛	4.79
CENTRUST SAVINGS 0 10	1200	13⅜		12.07
CHEVRON CORP 8 1/4 96	300	103¼		7.14
CHUBU ELEC POWER 8 1/4 98	350	107¼	-⅛	6.75
CIA NAVIERA PEREZ 9 96	100	99¼	+⅛	9.43
CNCA 7 1/2 94	150	104	-⅛	4.33
CNT 8 1/2 93	160	101½		4.14
COCA-COLA AMATIL 7 5/8 96	175	105⅛	-⅛	5.95
COMM BK AUSTRALIA 10 93	100	105¼	-⅛	4.29
COMP BANCAIRE 8 1/4 94	250	105⅝	-⅛	4.55
COUNCIL EUROPE 8 96	100	106⅛	-⅛	5.95
CREDIT FONCIER 7 1/2 94	150	103⅞	-⅛	4.15
CREDIT FONCIER 9 1/4 95	200	111⅛	-⅛	5.08
CREDIT FONCIER 9 1/2 99	300	114⅛	-⅛	6.57
CREDIT LOCAL 8 7/8 99	250	111½	-⅛	6.76
CREDIT LYONNAIS 9 96	300	110¼	-⅛	5.78
CREDIT NATIONAL 7 3/4 94	200	104⅞	-⅛	4.37
CREDIT NATIONAL 8 1/4 93	200	102¼	-⅛	3.63
DAIMLER-BENZ NA 8 98	250	106⅛	-⅛	6.67
DENMARK 0 98	250	69½	-⅛	6.47
DENMARK 7 3/4 93	250	102	-¼	3.86
DENMARK 8 1/4 94	150	106½	-⅛	4.47
DENMARK 9 1/4 95	1571	109⅞	-⅛	4.87
DEUTSCHE BK FIN 9 3/8 99	200	113¼	-⅛	6.83
DKB ASIA 8 93	100	103½	-⅛	4.34
DSM 8 1/2 96	150	107⅞	-⅛	6.04
DU PONT DE NEMOURS 8 1/2 96	250	108⅛	-⅛	5.77
ECSC 8 1/4 96	193	108⅛	-⅛	5.83
EEC 7 1/4 93	250	101⅛	-⅛	3.50
EEC 8 1/4 96	100	108½	-⅛	5.61
EIB 7 3/4 96	250	107¼	-⅛	5.57
EIB 9 1/4 97	1000	113⅛	-¼	6.02
EIB 9 1/2 99	200	115¼	-⅛	6.51
EIB 10 97	250	116	-⅛	5.83
EKSPORTFINANS ZERO 94	360	91¼	-⅛	4.77
EKSPORTFINANS 7 7/8 96	200	107	-⅛	5.92
EKSPORTFINANS 8 1/8 95	200	107½	-⅛	4.94
ELEC CORP N ZEALAND 9 3/8 96	200	110⅝	-⅛	6.05
ELEC DE FRANCE 9 98	200	112¼	-⅛	6.25
ELEC DE FRANCE 9 1/2 95	250	111⅛	-⅛	5.15
ENERGIE BEHEER 9 95	300	110	-⅛	5.31
ERICSSON LM 7 7/8 96	150	104¼	-⅛	6.49
EURATOM 7 3/4 97	247	106⅝	-⅛	5.93
EURO CRED CARD TST 9 94	325	106	-⅛	5.73
EURO CRED CARD TST 9 1/2 95	845	108⅞	-⅛	6.23
EUROFIMA 9 1/4 96	100	111	-⅛	5.59
EUROFIMA 10 1/8 93	100	102½	-⅛	4.07
EX-IM BANK JAPAN 9 1/2 00	200	114⅛	-⅛	6.95
EX-IM BANK JAPAN 9 3/4 99	200	115⅛	-⅛	6.75
EXPORT DEV CORP 8 5/8 00	200	110	-⅛	6.85
EXPORT DEV CORP 9 1/2 98	150	114¼	-⅛	6.44
EXXON CAPITAL 0 04	1800	40⅝	-⅛	7.74
FARM CRED CORP 7 1/2 93	100	103½	-⅛	4.26
FARM CRED CORP 7 3/4 96	100	106⅝	-⅛	5.75
FERRO DEL STAT 8 1/2 93	500	102⅝	-⅛	3.65
FERRO DEL STAT 9 1/8 09	1000	110¼	-1¼	7.99
FINLAND 7 7/8 97	200	105⅞	-⅛	6.26
FINLAND 9 96	850	109⅞	-⅛	5.95
FINNISH EXPORT 7 3/4 94	250	104¼	-¼	4.48
FINNISH EXPORT 9 3/8 95	200	110¼	-⅛	5.51
FORD CAPITAL 9 3/4 97	250	111	-⅛	6.88
FORD MOTOR CREDIT 11 96	100	113¼	-⅛	6.34
FUJI HEAVY 8 3/4 99	300	108	-⅛	7.26
GEFCO 7 5/8 97	150	106¼	-⅛	5.98
GEN ELEC CAPITAL 9 3/8 96	300	111⅛	-⅛	5.80
GEN ELEC CAPITAL 9 5/8 94	200	109½	-¼	4.73
GENERAL ELECTRIC 9 1/8 93	500	104⅝	-⅛	4.19
GMAC 9 1/8 96	200	108	-⅛	6.42
GUINNESS FINANCE 8 94	200	105½	-¼	4.68
HALIFAX 9 3/8 95	200	109½	-⅛	5.15
HOECHST INVEST 8 1/4 97	100	107½	-⅛	6.34
IBM INTL FIN 7 3/4 94	200	104⅞	-⅛	4.31
IBM WORLD TRADE 7 5/8 93	150	103½	-⅛	4.26
IMI BANK 8 5/8 94	500	106	-½	5.11
IND BK JAPAN FIN 7 7/8 97	200	105¼	-⅛	6.35
INTER AMER DEV 7 5/8 96	200	106¼	-⅛	5.64
INTER AMER DEV 9 1/2 00	300	114¼	-½	6.90
INTL FINANCE 8 3/4 96	200	110½	-⅛	5.55
INTL FINANCE 9 1/4 95	300	110¼	-⅛	4.99
IRELAND 9 1/2 00	250	113⅝	-⅛	7.07
ITALY 8 1/2 94	1500	106⅝	-¼	4.86
ITALY 9 1/8 96	150	109⅝	-⅛	5.88
ITALY 9 5/8 99	2000	112¼	-¼	7.15
JAPAN DEV BK 8 94	150	105½	-¼	4.33
JAPAN DEV BK 9 1/2 97	150	113¼	-¼	6.07
JAPAN DEV BK 10 96	200	113⅛	-⅛	5.63
JAPAN FIN CORP 9 7/8 96	150	113¼	-⅛	5.47
JAPAN HIGHWAY 8 5/8 01	300	109½	-⅛	7.11
JAPAN HIGHWAY 9 5/8 96	180	112¼	-½	5.42
KANSAI ELEC PWR 10 96	350	112⅞	-⅛	5.80
KANSAI INTL AIRPORT 9 96	150	111¼	-½	5.83
KANSALLIS-OSAKE 8 1/2 95	200	104⅛	-½	6.45
KFW INTL FINANCE 9 94	300	108¼	-¼	4.47
KOBE 8 7/8 99	150	110½	-½	6.89
LIBERTY MUTUAL 8 1/2 96	150	106⅞	-⅛	6.35
LINCOLN NATIONAL 9 3/4 95	100	110¼	+⅛	5.98
LKB BADEN-WUERTT 7 3/4 94	200	105	-⅛	4.49
LTCB FIN 8 97	200	106	-⅛	6.33
MANITOBA 7 1/2 96	150	104½	-⅛	6.05
MARKS & SPENCER 8 1/4 96	150	107⅞	-⅛	5.81
METLIFE FUNDING 7 3/4 96	150	105⅛	-⅛	6.07
MITSUBISHI ESTATE 8 5/8 01	200	107	-½	7.51
MITSUI TST FIN HK 7 3/4 94	200	103½	-⅛	4.95
MOBIL AUSTRALIA 8 94	200	105⅝	-¼	4.61
MONY FUNDING 8 1/4 96	150	96¼	-⅛	9.44
NEW ZEALAND 8 97	150	106⅝	-½	6.24
NEW ZEALAND 9 94	850	107⅞	-⅛	4.57
NEWFOUNDLAND 11 3/8 95	75	112⅞	-⅛	5.72
NIPPON CRED BK 10 3/8 95	150	110⅝	-½	5.96
NIPPON TEL & TEL 9 3/8 95	200	109½	-¼	5.02
NOMURA INTL 9 3/8 95	150	108⅝	-¼	5.60
NORDIC INV BANK 0 94	150	91⅛	-⅛	4.63
NORINCHUKIN BANK 8 5/8 97	200	108¼	-⅛	6.36
NORWAY 7 96	1000	104½	-⅛	5.74
ONTARIO 8 1/2 01	600	106½	-⅛	7.42
ONTARIO HYDRO 11 5/8 94	200	109	-⅛	4.38
OSLO 7 7/8 97	150	106¼	-⅛	6.16
OSAKA PREFECTURE 8 1/2 94	140	107⅛	-¼	4.44
OSTER KONTROLLBANK 8 1/2 01	200	109⅛	-⅛	7.01
OSTER KONTROLLBANK 9 95	200	110⅝	-¼	5.02
OSTER POSTSPARK 10 1/2 94	150	108⅞	-⅛	4.27
PANASONIC FIN 9 3/8 94	300	106½	-⅛	4.49
PETRO-CANADA 7 1/4 96	200	104⅝	-¼	5.81
PETROBRAS 10 96	200	95⅛	-⅛	11.69
PHILIP MORRIS 9 7/8 98	200	107⅞	-¼	8.10
PRUDENTIAL FIN 8 1/4 01	300	103¼	-⅛	7.74
PRUDENTIAL RLTY SECS 0 99	365.216	65⅝	-¼	7.04
QANTAS AIRWAYS 8 5/8 96	97.75	108⅛	-⅛	5.74
QUEBEC HYDRO 9 01	300	109	-½	7.50
QUEBEC HYDRO 9 3/4 98	150	113½	-½	6.93
QUEBEC PROV 9 98	200	109⅝	-⅛	6.82
QUEENSLAND GOVT 10 1/4 95	100	112½	-⅛	5.36
RALSTON PURINA 11 3/4 95	150	113½	-⅛	5.85
REED PUBLISHING 9 5/8 97	150	112⅝	-⅛	6.55
SAINSBURY 9 1/8 96	150	110¼	-½	6.16
SAS 10 99	200	110	-¼	7.92
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWEDEN 9 1/4 98	350	112⅞	-⅛	6.43
SWEDISH EXPORT 8 3/8 96	700	108¼	-⅛	5.72
TAIYO KOBE 7 3/4 94	100	103½	-⅛	4.84
TOKAI ASIA 11 1/2 95	100	113⅛	-¼	5.92
TOKYO ELEC POWER 8 3/4 96	300	109⅝	-½	5.88
TOKYO METROPOLIS 8 1/4 96	200	108⅝	-⅛	5.77
TOKYO METROPOLIS 9 1/4 94	200	107⅞	-¼	4.39
TOYOTA MOTOR CRED 8 1/2 94	200	106⅛	-⅛	4.56
UBS FIN 9 1/8 02	225	111⅞	-⅛	7.31
UNILEVER CAP CORP 9 1/4 00	400	112⅞	-⅛	6.96
UNION BK FINLAND 8 94	200	103	-⅛	5.92
URUGUAY 8 1/4 95	100	102¼	-⅛	7.21
VENEZUELA 9 3/4 96	150	99⅞	-⅛	9.82
VICTORIAN PUB AUTH 8 3/8 96	100	108¼	-½	6.05
WARNER-LAMBERT 8 1/8 96	100	107½	-⅛	5.81
WORLD BANK 8 1/8 01	1500	108⅝	-⅛	6.87
WORLD BANK 8 3/8 99	1500	110⅝	-⅛	6.58
WORLD BANK 8 3/4 97	1500	111⅛	-⅛	5.76
XEROX CORPN 8 3/8 96	100	107	-⅛	6.31
YOKOHAMA 8 01	200	105⅛	-½	7.17

FLOATING RATE NOTES	Issued	Bid price	Chg on week	C.cpn
ALASKA HOUSING 1/10 01	125	98.89	-.01	3.7250
ALLIANCE & LEICS 0.08 94 £	300	99.72	-.01	10.3925
ALLIANCE & LEICS 0.1 95 £	150	99.87	-.01	10.4200
AMERICAN EXPRESS BK 1/8 99	200	93.06	-.31	3.3750
ANGLIA 1/8 98 £	100	99.90		10.5000
ANZ BANKING 0.15 PERP	300	74.50	-.5	4.4625
AUSTRIA -0.15 05 DM	700	98.53	-.04	9.6000
BANCO ROMA 0.03 01	200	89.10	-.49	4.0925
BANK NEW YORK 3/16 97	200	98.76	+.08	5.2500
BANK OF GREECE 1/4 99	250	97.55	-.07	3.5000
BANK OF MONTREAL 1/20 98	250	97.38	-.25	3.7375
BANKERS TRUST 1/16 00	300	98.74	+.02	5.0000
BANKERS TST INTL CAP 1/8 96	200	99.78	+.02	5.2500
BANQUE INDOSUEZ 1/4 97	125	99.90	-.02	4.3438
BARCLAYS O/S INV 1/8 04	350	99.11	+.08	5.0000
BBL INTL 0.05 01	200	93.10	-.59	4.1125
BCI 0.15 98	300	91.71	-.54	4.1500
BELGIUM 94	200	99.92	-.05	4.1250
BELGIUM 96	400	99.76		3.5000
BELGIUM 00 ECU	250	98.72	-.06	10.9688
BELGIUM 1/16 97 DM	500	100.09		9.9375
BFCE -0.02 96	350	99.83	-.04	3.9175
BILBAO INTL 0.015 01	150	98.29	-.09	3.6400
BIRMINGHAM MID 1/8 98 £	150	99.87		9.3750
BNP 1/4 95	400	101.81	-.04	5.2500
BNP 05	300	99.73	-.08	5.2500
BRADFORD BINGLEY 1/8 98 £	100	99.29	-.01	9.0000
BRISTOL & WEST 1/16 94 £	150	99.63	-.04	10.3750
BRITANNIA 1/10 96 £	150	99.34	-.04	10.4125
CARIPLO 1/4 99	150	98.04	+.06	3.8750
CCCE 06 ECU	200	99.09	-.01	11.1719
CHASE MANHATTAN 1/8 09	400	89.09	-.4	5.2500
CHASE MANHATTAN 1/16 00	250	98.00	-.25	5.0000
CHELT & GLOUC BS 1/16 94 £	125	99.83		10.6875
CITIZENS FED 0.15 96	100	99.58	+.05	5.0000
COMM BK AUSTRALIA 0.15 PERP	300	98.88	-.17	3.7750
CREDIOP 97 ITL	200000	99.75	+.7	13.1500
CREDIT DU NORD 1/16 97	100	99.29	+.01	5.2500
CREDIT FONCIER -1/16 98	200	100.36	+.07	5.0000
CREDIT LYONNAIS 1/8 99	250	99.45	+.09	5.2500
DENMARK -1/8 96	1000	99.39	+.03	3.4063
DRESDNER FINANCE 1/32 98 DM	1000	99.89	-.03	9.8438
EIB -1/4 01 ECU	400	97.44	-1.41	10.8125
ELEC DE FRANCE 1/8 99	400	101.87	+.1	5.2500
FERRO DEL STAT 94	200	99.71	-.17	3.6250
FERRO DEL STAT 97	420	99.23	-.18	3.3500
FIRST CHICAGO 3/16 96	125	97.00	-.06	3.6875
FLEET FINANCIAL 1/10 98	100	95.14	-.06	3.3500
FUJI BANK 1/4 00	700	97.70	-.15	3.5625
GRACECHURCH MORT 0.2 19 £	175	98.37	+.11	9.2625
HALIFAX 1/10 94 £	200	99.94	+.02	10.3500
HALIFAX 2/25 96 B £	150	99.80	+.01	8.9550
HESSISCHE LANDESBK 96	100	99.11	-.04	3.1875
HK SHANGHAI (1) 1/4 PERP	400	73.09	-1	5.0000
ICELAND 1/8 00	125	99.61	+.02	5.2500
INVESTORS IND 1/8 94 £	125	99.63		10.7500
IRELAND 98	300	99.58	+.04	4.1000
ITALY 00	500	100.12	-.17	4.0625
ITALY 05 B ECU	1000	96.41	-.22	10.8438
KB IFIMA 0.15 11	150	88.25	-.45	5.0000
KOREA DEV BANK 1/16 97	200	98.75	-.04	3.6875
LEEDS PERMANENT 1/8 96 £	200	99.61		9.5313
LLOYDS BANK 1/10 PERP S.3	600	76.75	-.42	3.7250
LUFTHANSA INT FIN 00 DM	1200	96.35	+.07	9.8438
MALAYSIA 1/16 05	650	98.27	-.14	5.2500
MELLON BANK 1/8 96	250	98.97	+.01	5.7500
MIDLAND INTL FIN 1/8 99	200	96.65	+.54	5.0000
MITSUI FIN ASIA 1/8 96	100	100.10	+.01	5.2500
MORGAN JP 0.05 97	200	100.02	-.03	5.2500
MORT FUND A-1 0.35 35 £	100	99.88		10.7250
NAT BK CANADA 1/16 96	200	98.24	-.15	3.6875
NAT WEST FIN 3/16 05	400	91.79	-.54	4.3750
NAT WEST 1/4 PERP C	500	79.75	-1	3.6250
NATIONWIDE 0.08 96 £	300	99.25	-.08	9.3613
NATL PROVINCIAL 1/8 96 £	200	99.60	-.01	9.1875
NEW ZEALAND 1/8 96	250	99.97		4.1880
NORTHERN ROCK 1/8 95 £	100	99.92		10.5000
OSTER KONTROLLBK -0.15 95 DM	300	99.55	+.01	9.6000
QUEBEC HYDRO 02	200	97.84	-.11	4.7500
QUEBEC PROV 01	300	95.65	-.32	4.1250
REGIE OLYMPIQUES 94	250	99.82	-.09	5.0000
RENFE 98	500	99.42	-.1	3.8750
SECURITY PACIFIC 1/16 97	250	98.51	-.02	5.0000
SKANDINAVISKA ENSK 95 DM	400	98.09	+.06	9.7500
SOCIETE GENERALE 96	300	99.46	-.07	3.1875
STAATSBK BERLIN 0.05 94 DM	4000	100.02	+.01	9.7500
STATE BK NSW 3/16 98	250	99.69	-.03	3.7188
STATE BK VICTORIA 0.05 99	125	98.92	-.08	4.1281
SWEDBANK 1/4 98	250	99.53	+.07	3.7500
TOWN & COUNTRY 0.1 94 £	100	99.66		10.3500
UNION BK FINLAND 00 DM	300	97.17	-.23	9.7500
UNITED KINGDOM -1/8 96	4000	99.71	-.07	3.0000
WELLS FARGO 1/8 97	250	96.28	-.26	5.2500
WOODSIDE FIN (JULY) 97	300	100.06	-.01	5.2500
WOOLWICH EQUITABLE 1/16 95 £	150	99.90		10.4750
YORKSHIRE BS 1/10 94 £	165	99.79		10.3500

CONVERTIBLE BONDS	Issued	Bid price	Chg on week	Prem
BURTON GROUP 4 3/4 01 £	110	134¼		
CHUBB CAPITAL 6 98	250	115⅛		+19.73
EASTMAN KODAK 6 3/8 01	300	103½	-⅛	+24.13
GOLD KALGOORLIE 7 1/2 00	65	94	-¼	+52.67
HANSON 9 1/2 06 £	500	104½	+1⅛	+24.73
HAWLEY 6 02 PREF	400	110⅛	+⅛	
HILLSDOWN 4 1/2 02 £	150	123⅞	+½	
LAND SECS 6 3/4 02 £	84	79¼	+½	+35.33
LASMO 7 3/4 05 £	90	73⅛		
MITSUI BANK 2 5/8 03	200	66½	-¼	+31.87
MOUNT ISA FIN 6 1/2 97	100	97¼	-2	+17.37
OGDEN 6 02	85	85⅛	-¼	+93.40
PIONEER CONCRETE 9 1/2 98 A$	175	98⅛	-¼	+41.96
ROCKEFELLER CENTER 0 00	952.25	35¼	-¼	-12.54
SEGA ENTERPRISES 3 1/2 96	200	102¼	+2¼	+41.60
SMITH & NEPHEW 4 02 £	90	128¼	+¼	+55.24
SUMITOMO BANK 3 1/8 04	300	68	+¼	+34.96
TARMAC FINANCE 9 1/2 06 £	107.5	68	+½	
TEXAS INSTRUMENTS 2 3/4 02	300	95¼	+¼	+75.42
THORN EMI 5 3/4 04 £	103	124¼	+¼	+16.14

DEUTSCHE MARK STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABN AMRO 8 1/2 96	500	103	+⅛	7.61
AUSTRIA 5 7/8 97	500	94⅛	+⅛	7.47
BELGIUM 7 3/4 02	500	100⅞	+⅛	7.66
BNP 8 1/4 01	200	104½	+½	7.54
DEUTSCHE FINANCE 7 1/2 95	1000	100⅛	+⅛	7.29
EIB 7 1/2 99	400	100½	-⅛	7.40
EUROFIMA 8 3/4 96	400	104½	+⅛	7.39
FINLAND 8 1/4 02	2000	101⅞	+⅛	7.96
GENERAL ELECTRIC 8 3/4 95	300	103⅛	+⅛	7.46
INTER AMER DEV 9 00	300	108½	+¼	7.56
IRELAND 6 1/2 97	300	94½	-⅛	7.98
JAPAN DEV BK 5 3/8 95	300	94½	+½	7.83
NAT BK HUNGARY 10 3/4 98	500	100		10.75
NORTH EAST FIN JAP 8.40 99	200	103⅛	+½	7.66
TURKEY 10 3/4 96	500	101⅞	+⅛	10.35
VOLKSWAGEN COM 8 5/8 97	400	103½	+⅛	7.75
WORLD BANK 0 15	2000	22⅛	-⅛	6.60
WORLD BANK 5 3/4 96	300	95	+½	7.44
WORLD BANK 8 3/4 00	1250	107⅞	+⅛	7.34

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
QUEBEC HYDRO 5 08	100	79		7.31
SNCF 7 04	450	103½	+½	6.54
WORLD BANK 5 03	150	89	-1½	6.44
WORLD BANK 7 01	600	105⅛	-⅞	6.19

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
AUSTRIA 4 3/4 94	30000	100⅞	+⅛	4.01
BELGIUM 4 5/8 94	45000	100⅝	+¼	4.04
CNT 5 1/8 94	20000	101⅛		4.25
COUNCIL EUROPE 7 94	25000	104⅛		4.13
CREDIT FONCIER 5 1/4 94	20000	102	+⅛	4.26
CREDIT LOCAL 7 96	30000	107⅛	+½	4.69
DENMARK 7 95	40000	105⅛	+⅛	4.29
EIB 4 5/8 94	40000	101¼	-⅛	3.77
EIB 6 3/4 01	50000	109⅞	+⅛	5.37
ELEC DE FRANCE 5 5/8 96	20000	103⅛	+¼	4.55
EUROFIMA 6 7/8 94	30000	104	+⅛	3.99
FINLAND 6 3/4 96	50000	105⅝	+⅛	4.92
INTER AMER DEV 7 1/4 00	30000	111⅛	+¼	5.40
JAPAN DEV BK 6 1/2 01	120000	107⅞	+⅛	5.37
KANSAI ELEC PWR 4 5/8 94	60000	100⅞	+¼	4.01
KFW INTL FIN 6 1/4 94	25000	104⅛	+⅛	4.18
NIPPON TEL & TEL 5 7/8 96	50000	104⅛	+½	4.70
NORDIC INV BANK 4 7/8 94	30000	100⅞	+¼	4.11
NORWAY 5 1/8 95	50000	101⅞	+⅛	4.35
ONTARIO 6 1/4 96	50000	104	+⅛	5.12
OSTER KONTROLLBANK 7 94	25000	103⅛		4.08
SNCF 6 3/4 00	30000	108½	+¼	5.32
SWEDEN 5 5/8 95	20000	102⅝	+⅛	4.65
WORLD BANK 6 3/4 00	50000	109	+¼	5.25
WORLD BANK 7 1/4 95	45000	107⅛	+⅛	4.01

LUXFR STRAIGHTS	Issued	Bid price	Chg on week	Yield
COPENHAGEN TEL 8 5/8 96	600	97⅞		9.49
ECSC 7 3/4 94	1000	98⅞	+⅝	8.53
SKANDINAVISKA ENSK 9 3/8 97	1000	100¼		9.33
WORLD BANK 8 96	1000	97⅞		8.74

GUILDER STRAIGHTS	Issued	Bid price	Chg on week	Yield
EIB 8 7/8 01	300	106½	-½	7.85
ENERGIE BEHEER 8 3/4 98	500	104⅞		7.74
UNILEVER 9 00	500	108¼	+⅛	7.56

CANADIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALBERTA PROVINCE 10 5/8 96	500	107⅝	-¼	7.90
BELL CANADA 10 5/8 99	150	108⅝	-¼	8.83
BRITISH COLUMBIA 10 96	500	105⅛	-¼	8.08
EIB 10 1/8 98	130	107⅞	-⅛	8.27
ELEC DE FRANCE 9 3/4 99	275	106⅛	-⅛	8.53
FORD CREDIT CANADA 10 94	100	103	-⅛	8.13
GEN ELEC CAPITAL 10 96	300	105⅛	-¼	8.29
KFW INT FIN 10 01	400	107¼	-⅛	8.73
NIPPON TEL & TEL 10 1/4 99	200	107⅞	-⅛	8.70
ONTARIO HYDRO 10 7/8 99	500	110¼	-⅛	8.71
OSTER KONTROLLBANK 10 1/4 99	150	108⅛	-½	8.56
QUEBEC PROV 10 1/2 98	200	107⅞	-½	8.80

ECU STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALL NIPPON AIRWAYS 9 95	130	96⅛		10.66
BELGIUM 9 1/8 96	1250	100	+2	9.09
BFCE 9 99	100	98	+⅛	9.40
BRITISH TELECOM FIN 8 1/2 94	150	97	+⅛	10.31
CNA 7 3/8 95	120	94¼	+⅛	9.97
CNA 8 3/4 99	150	96½	+⅛	9.46
COUNCIL EUROPE 9 01	1000	97⅝	+⅛	9.44
CREDIT FONCIER 7 5/8 94	430	96⅝	+⅛	10.29
CREDIT LOCAL 9 95	100	97⅞	+½	9.93
CREDIT LYONNAIS 9 96	125	97⅞	+⅛	9.87
CREDITANSTALT 8 7/8 94	67.5	97⅞	+⅛	10.01
DENMARK 7 5/8 96	250	93⅛	+⅛	9.96
DEUTSCHE BK FIN 8 5/8 94	200	97	+⅛	10.49
EBRD 8 7/8 96	550	99	+⅛	9.18
ECSC 8 97	141	95	+⅛	9.46
EEC 7 5/8 94	200	96⅝	+⅛	10.34
EIB 10 97	1125	102⅞	+1⅛	9.14
ELEC DE FRANCE 8 5/8 99	200	95⅛	+⅛	9.57
EURATOM 7 3/8 96	100	92½	+⅛	9.83
EUROFIMA 7 5/8 95	165	95⅛	+⅛	9.93
EX-IM BANK JAPAN 10 5/8 95	200	102⅝	+⅛	9.58
FED BSNS DEV BK 9 94	100	97⅞	+¼	10.46
FERRO DEL STAT 10 1/8 98	500	100¼	+1⅛	10.07
FINLAND 10 1/4 95	250	101	+1	9.84
ITALY 10 3/4 00	1000	103⅛	+1⅛	9.99
JAPAN DEV BK 8 5/8 97	200	96⅞	+1	9.44
JAPAN HIGHWAY 9 1/8 96	150	98⅞	+½	9.64
NEW ZEALAND 10 5/8 97	300	103⅝	+1⅛	9.60
NORDIC INV BANK 9 7/8 96	300	100⅞	+1⅛	9.57
OSTER KONTROLLBANK 8 5/8 94	100	96¼	+⅛	10.62
SNCF 9 99	175	98½	+⅛	9.37
SPAIN 10 3/4 95	500	102⅝	+⅛	9.62
SWEDISH EXPORT 9 3/4 94	300	99⅝	+⅛	9.92
UNITED KINGDOM 9 1/8 01	2750	100⅛	+1⅛	9.09
WORLD BANK 7 1/2 94	150	95⅛	+⅛	10.46

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
AIDC 10 99	100	103⅞	+⅛	9.18
BP AMERICA 12 1/4 96	100	110	+⅛	8.68
COMM BK AUSTRALIA 13 3/4 99	100	121⅞	+⅛	9.32
EKSPORTFINANS 12 3/8 95	75	110⅝		7.71
EUROFIMA 14 5/8 94	75	110⅝	+¼	7.12
MCDONALDS CANADA 15 95	100	115⅛	+⅛	8.35
NAT AUSTRALIA BANK 14 3/4 94	150	109⅛	-⅛	7.22
UNILEVER AUSTRALIA 12 98	150	112⅞	+⅛	8.93
VOLKSWAGEN INTL 15 94	100	110¼		7.57

STERLING STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABBEY NATL TREAS 13 3/8 95	100	110⅛	+1⅛	8.30
ALLIANCE & LEICS 11 3/8 97	100	109	+2	8.86
ASFINAG 12 96	100	110½	+1⅛	8.30
ASIAN DEV BANK 9 1/2 97	50	104⅝	+2¼	8.32
BRITISH GAS 12 3/4 95	300	109⅛	+1⅛	8.22
BRITISH LAND 12 1/2 16	150	99	+1⅛	13.03
CNT 10 97	70	105½	+1⅛	8.42
DAIMLER-BENZ UK 10 3/4 96	100	106⅛	+2⅛	8.61
DEUTSCHE BK FIN 11 94	225	103½	+⅞	7.90
EIB 10 97	636.5	105⅞	+2¼	8.30
HSBC HOLDINGS 11.69 02	152.724	107	+2⅝	10.50
ITALY 10 1/2 14	400	99½	+1⅛	10.54
LAND SECS 9 1/2 07	200	90⅞	+1⅛	10.83
NATIONWIDE ANGLIA 13 1/2 00	125	117⅛	+3¼	10.25
NORWAY 10 1/2 94	200	103	+1	7.96
ONTARIO 11 1/8 01	100	110¼	+2⅝	9.26
SEVERN TRENT 11 1/2 99	150	110¼	+2⅝	9.36
SKANDINAVISKA ENSK 13 1/8 95	100	106⅝	+⅛	9.66
TOKYO ELEC POWER 11 01	150	110⅞	+2⅝	9.11
WORLD BANK 11 1/4 95	100	107	+1⅛	8.09

NEW ZEALAND DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
TCNZ FIN 9 1/4 02	75	105¼	+⅛	8.35
WORLD BANK 14 94	75	108	+⅛	7.22

FRENCH FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
CEPME 10 95	2000	102¼		8.99
ELF-AQUITAINE 9 99	600	100½	-½	8.89
SNCF 9 1/4 97	4000	101⅛	+⅛	8.73

EQUITY WARRANTS	Expiry Date	Bid price	Chg on week	Prem
ASAHI GLASS	25/06/98	13¼	-⅛	33.78
CANON	24/05/95	8⅞	+⅛	26.06
HANKYU DEPT STORES	14/03/96	2⅛	-⅛	76.74
HINO MOTORS	06/07/94	⅛	-⅛	84.28
KOBE STEEL	12/06/96	2		70.89
MITSUBISHI EST	11/03/94			
MITSUI TOATSU CHEM	30/01/98	1⅛	+⅛	
MORINAGA	13/06/95	½	-⅛	30.94
NICHIREI CORP	11/06/98	14⅛	+1¼	35.29
NIPPON COMSYS	31/01/95	1		
NISSHIN STEEL	18/04/96	1⅛	-⅛	
ROYAL HOTEL	14/03/95	1	+⅛	93.10
SMC	25/07/95			
TAKASHIMAYA	02/07/96	1½		
TOYO SASH	05/08/97	2⅛	+⅛	91.05
YAMANOUCHI PHARM	01/03/94	8		18.95

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on October 16

INTERNATIONAL BONDS

Sweden deal helps to jump-start D-Mark sector

SWEDEN'S DM2.5bn financing last week, the largest Eurobond in the D-Mark sector to date, is widely seen as a turning point in the market's development.

Despite the importance of the currency, the D-Mark sector has lagged others in the Eurobond market, failing to modernise its practices. But volume has grown steadily this year, boosted by the strength of German markets. Changes in Bundesbank rules at the beginning of August proved an important step in bringing the market into line with more liberal market practices.

But last week's Swedish deal has helped jump-start the market by showing it can attract international institutional investors if high quality, liquid paper is available. The sector is now expected to take the place of the virtually defunct Ecu bond market as the leading European currency bond market.

Sweden's Eurobond was priced using a mechanism known as a fixed-price reoffer, designed to ensure *greater transparency* for investors, and was fixed by consensus between underwriters. This method, used in other large markets, had not been tried in the D-Mark sector, with its old-fashioned pricing structure and heavy fees. The Sweden deal was "the sort of issue and the sort of mechanism that institutional investors like", said Mr Charlie Berman, director of capital markets at Salomon Brothers. "The promise of price consistency created fresh institutional non-bund interest."

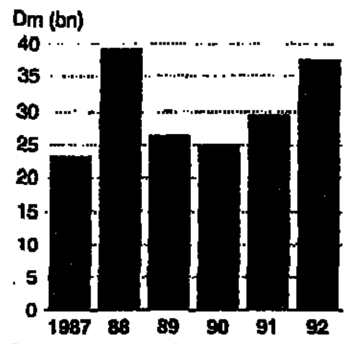
According to one German banker: "Sweden caught some investors who normally abstain due to the sector's lack of liquidity." Until now, the D-Mark sector, which has no market-making system unlike other sectors, has offered poor liquidity, although an increasing number of large, tradeable issues this year had already started to address that problem.

Some dealers say a system of regulated market-making should be introduced. The market is benefiting from a coincidence of supply and demand. The turmoil in currency *markets created a massive* flow of funds into D-Marks, perceived as a safe haven. At the same time, European sovereign borrowers need to replenish falling foreign exchange reserves and repay the Bundesbank for its foreign exchange intervention. Meanwhile, deepening recession has caused budget deficits in some countries to balloon, further increasing funding needs. The UK, Norway, Finland, Belgium, Spain and Italy are all considering tapping the German market. As well as needing the currency, it makes sense to borrow in D-Marks *while it is strong*.

In any case, most other markets are in poor shape and would not readily absorb large offerings. The UK's offering is likely to prove the most significant for the market. A DM5bn offering, probably over five years, is widely expected.

The liquidity provided by such a large issue would boost investor confidence in the sector. There is also talk that the World Bank will launch a global offering of D-Mark bonds. However, there are doubts about the market's ability to sustain *interest once this spate of sov*ereign funding is over. Already, swap opportunities in the sector

D-Mark Eurobond Issues



Source: Euromoney Bondware

have been eroded, so funding costs are not attractive for borrowers without a need for D-Marks. Consequently, corporate borrowers are unlikely to flock to the market.

Further, the expansion of the market may have to rely on international institutional investors. "The German government and its agencies have a huge financing require*ment which could monopolise* domestic investors," said one German banker. However, the wave of offerings, expected to continue this week, may create sufficient momentum, provided the necessary support structure for the secondary market is put in place.

So far, investor enthusiasm is being more than matched by bankers, for whom the D-Mark market provides a focus for activity in otherwise depressed trading conditions. Banks are acting quickly to commit resources to the sector. The demise of the Ecu bond market, in which *many banks had invested heavily*, has left Ecu traders with little to do.

"In our opinion, there is no doubt that resources are being redirected to the D-Mark in London, as well as in other continental centres," said Mr Len Harwood, head of capital markets at UBS Phillips & Drew.

The deployment of traders by international investment banks will provide an important injection of liquidity. In addition, German banks, faced with fresh competition, are building their forces in an effort to maintain market share as the *sector opens up*.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Citizen Watch Co.(a)♦	200	1996	4	1.5	100	Nikko Europe	-
Showa Electric(a)♦	150	1996	4	1.5	100	Daiwa Europe	-
Tateyama Aluminium(a)♦	100	1996	4	1.5	100	Daiwa Europe	-
Toa Steel Co.(g)♦	260	1997	5	2.5	100	Nomura Int.	-
Toyota Motor Fin.	250	1995	3	5	99.89	Lehman Bros	5.040
Columbus 2 Int.Fin.(h)‡	55	1997	5	(h)	100	Salomon Bros	-
Columbus 2 Int.Fin.(i)	30	1997	5	5.87	100	Salomon Bros	5.870
Columbus 2 Int.Fin.(j)	21	1997	5	8.5	100	Salomon Bros	8.500
Telebras(k)	40	1997	5	10	97.212	Nomura Int.	10.750
UBS Finance(q)‡	150	2002	10	(q)	100	UBS P&D Secs.	-
TMM Fin.Services(r)	75	1997	5	(r)	96.573	Chase Inv.Bank	-
Swedish Export Credit(t)‡	100	2002	10	(t)	99.625	Lehman Bros Int.	-
Eksportfinans(u)‡	50	2002	10	(u)	(u)	Kidder,Peabody Int.	-
Banco Safra(k)	50	1995	2.5	10	100.271%	Bear, Stearns Int.	9.817
YEN							
World Bank(k)	225bn	1997	5.15	4.5	99.8	Nomura/Daiwa/GS	4.543
Nihon Unisys	10bn	1998	5.25	5.35	101.62	Yamaichi Int.(Europe)	4.985
Nihon Unisys	10bn	2000	7.25	5.55	101.5	Nomura Int.	5.291
NKK Capital of America★★	6.2bn	2003	10.19	5.85	101.75	Daiwa Europe	5.617
OKB	30bn	1997	5	4.625	99.673	Nomura Int.	4.700
D-MARKS							
Zuken Inc.(a)♦	150	1996	4	4	100	Daiwa (Deutsch.)	-
Citizen Watch Co.(a)♦	100	1996	4	4	100	Bayerische LBk	-
European Inv. Bank	1bn	2002	10	7.5	102.25	WestLB	7.177
Compagnie Bancaire	250	1997	5	7.75	101.5	Commerzbank	7.380
Kingdom of Sweden	2.5bn	1997	5	8	102.23	Dresdner/M.Stanley	7.450
Tokyo Electric Power	1bn	2002	10	7.625	102.35	WestLB	7.286
Euro.Coal & Steel Comm.	105	1997	5	7.625	101.7	Bayer.Vereinsbank	7.208
Kawasaki KK(l)‡★★	100	1997	5	(l)	100	DKB (Deutsch.)	-
Finnish Export Credit	200	1995	3	8	101.26	Merrill Lynch Bk	7.514
Euro.Coal & Steel Comm.(s)	18	1997	5	7.625	101.75	Bayer.Vereinsbank	7.196
STERLING							
Housing Finance Corp.(e)	80	2016	24.1	11.5	103.221	Samuel Montagu	11.105
FRENCH FRANCS							
CNA(b)	500	1996	4.06	9.125	100.2	BNP	9.057
CNA	500	1995	3	9	99.77	BNP	9.091
La Poste	1bn	1999	7	8.875	99.77	Paribas Cap.Mkts.	8.921
Soc.Gén.Acceptance(n)♠	300	1995	3.17	(n)	100.5	Société Générale	-
AUSTRALIAN DOLLARS							
Bayerische Hypobank	75	1996	4	7.75	100.3	Hambros Bank	7.660
SWISS FRANCS							
Ohtsu Tire & Rubber(c)♦★★	50	1996	4	3	100	Nomura Bk(Switz.)	-
Matsuo Bridge Co.(a)♦★★	35	1996	4	3	100	Swiss Bank Corp.	-
Sakai Ovex Co.(d)§★★	30	1997	5.42	4	100	Nikko Bk(Switz.)	-
Canon Sales Co.(f)♦★★	360	1998	4	2.5	100	BSI	-
Energie Beheer Ned.★★	150	1999	7	6.25	101.5	Paribas(Suisse.)	5.981
Region Rhône-Alpes★★	50	2002	10	6.375	101.75	Swiss Volksbank	6.136
SNCI★★	150	1999	7	6.625	101.25	Crédit Suisse	6.398
Rabobank★★	100	1999	7	6.25	100.75	Swiss Bank Corp.	5.937
Tosho Printing Co.(o)♦★★	80	1996	4	2.5	100	Nikko Bk(Switz.)	-
Taiyo Kagaku Co.(p)♦★★	60	1996	4	2.625	100	Nomura Bk(Switz.)	-
Footwork Express Corp.★★	30	1997	5	6.875	99.875	Crédit Suisse	6.905
LUXEMBOURG FRANCS							
CCF	1.5bn	2002	10	8.5	102	BGL	8.199
Crédit Lyonnais Canada	500	2002	10	8.5	102	Crédit Lyonnais Lux.	8.199
Colruyt Nederland	750	1999	7	8.5	101.8	Crédit Européen	8.152
Dresdner Bank Lux.	2bn	2002	10	8.375	102.25	BIL	8.039
Glaverlux	750	2000	7.17	8.5	101.7	Banque UCL	8.168
Asik-Cger Ifico	1.5bn	2002	10	8.5	102.125	Banque UCL	8.181
European Inv.Bank	2bn	1997	5	8	102	BIL	7.506
CMB Finance Lux.	1bn	2000	8	8.625	102.4	Kredietbank Lux.	8.204

Final terms and non-callable unless stated. ★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. ♠Variable rate note. a) Exercise premium fixed at 2.5%. b) Fungible with existing FFr1.7bn bonds. c) Exercise premium fixed at 2.5%. Callable from 22/10/94 at 102% declining by ½% semi-annually. d) Coupon payable semi-annually. Conversion premium fixed at 2.5%. Callable and putable on 31/3/95 at 106⅞%. Callable from 31/9/95 at 101½% declining by ½% semi-annually. e) Fungible with existing £152m issue on paydate. Plus 146 days accrued interest. Coupon is payable semi-annually. f) Final terms fixed on 15/10/92. Callable on 5/5/93 at 101.5% declining by ¼% semi-annually. g) Final terms fixed on 20/10/92. h) Senior tranche of $106m issue. Coupon pays 100bp above 3-month Libor. Investor has option to switch between $/DM/Y/£/C$/L. i) B tranche of $106m issue. Indexed to Yen. j) Junior tranche of $106m issue. Indexed to Yen. k) Coupon payable semi-annually. l) Coupon pays 35bp above 6-month Libor. n) Initial coupon until 18/3/93 is 10¼% fixed. Thereafter coupon pays 10¼% + (3-month $ Libor > (payment date FX $/FFr)/(16/10/92 FX $/FFr) - 3-month Pibor). o) Final terms fixed on 19/10/92. p) Final terms fixed on 21/10/92. Callable on 30/10/94 at 102% declining semi-annually by ½%. q) Coupon pays 25bp below 6-month Libor. Minimum coupon 5%, maximum 8¼%. r) Coupon pays 8¼% in years 1-3 and 9¼% in years 4-5 and is payable semi-annually. Putable on 29/10/95 at 98.631%. s) The DM105m issue launched on 13/10/92 was increased to DM123m. t) Coupon pays ⅛% below 6-month Libor. Minimum coupon 5%, maximum 10%. u) Fungible with $100m issue launched on 2/9/92. Plus 42 days accrued interest. Variable issue price. Coupon pays ⅛% below 6-month Libor. Minimum coupon 5⅛%, maximum 10%. Note: Yields calculated on ISMA basis.

Anthony Harris

Time to nationalise private sector debt

IT IS all very well to say that the best time to kick a man is when he is down; but the mob round Mr John Major is now so dense that it is *hardly worth join*ing in. It is only a few weeks since President George Bush was hoping to emulate Mr Major and win an election from behind;now it looks much likelier that Mr Major will join Mr Bush in retirement.

Time, then, to think about the task which will face his successor. (even if that successor proves, improbably, to be called John Major). The place to begin is the latest analysis from the invaluable Professor Tim Congdon*, which *examines the current state of* British banks, savings institutions and insurance companies. In any but these extraordinary times, it would have been the main talking point in the City in the 10 days since it appeared.

In a few bleak charts, it describes a catastrophe waiting to happen. You think you know it all already? In a sense, we all do. The banks have too many bad loans, thebuilding societies too many stretched borrowers, the insurance companies have been meet*ing claims out of shareholders'* funds; no surprises there. But the words could describe anything from a nasty head cold up. It is the numbers which tell the real story, which is no doubt why we try to ignore them. Here are the Congdon numbers.

First bankruptcies – the inevitable result of squeezing a heavily over-borrowed economy with record real interest rates. The pain should convince even Mr Major that his policies are working. Company failures have risen nearly fivefold since the Conservatives took office in 1979. They have doubled since Mr Major arrived at the Treasury. Corporate borrowings are still five times cash holdings (double the normal level), while profits are falling again. The workout has hardly begun.

Personal bankruptcies have risen fivefold in the Major period. The main trouble, of course, is in housing. The real cost of mortgages – interest minus house price deflation – is 14 per cent even after Friday's rate cut. Small wonder that mortgages in arrears are quickly approaching total building society capital. This begins to look like a black hole.

The banks look in better shape, *at first sight: provisions at the end* of last year only accounted for 35 per cent of capital. But remember that provisioning is restrained by the need to appear creditworthy, and write-offs by the necessity to maintain minimum capital ratios; remember, too, that many industrial companies are now on the debt-watch list, and that property companies, the most indebted group, are losing money year by year. Small wonder that balance sheet shrinkage is the rule among banks: it is not a question of prudence, but *survival*.

Leaving aside insurance (it should be enough, on a gloomy morning, to remark that solvency ratios are heading straight through their 1974 trough), this crisis of the financial intermediaries rules out any domestic recovery for years, even assuming that it can be contained. Congdon puts the earliest date at the late 1990s. That could be optimistic. The private sector's boot-straps are broken.

There is one tried and proved *remedy: bank nationalisation*. This can be short-term and highly profitable, like the Federal Reserve takeover of Continental Illinois; it can be medium-term and costly, like the US savings and loan bail-out; or it can be long-term, like European bank nationalisation in the 1930s, which is still not fully unwound. This was highly effective economically.

The cure is essentially a write-off of past errors by converting private into public debt, and provides a kind of geared-up reflation, by putting lending institutions under clean-slate management. There is a theoretical market alternative: sell our weaker banks to Europe at give-away prices. However, this would be bad value for Britain, and probably politi*cally impossible. The sensible* answer is nationalisation. It might serve Mr Major right to survive to be the man to do it.

**Gerrard and National Review, October*

BUILDING CONTRACTS

Motorway safety and lighting projects

EDMUND NUTTALL has been awarded a motorway lane rental contract by Buckinghamshire County Council, as agent for the Department of Transport, with a value of over £5m.

Spread over 23 kilometres of the M1 motorway through Buckinghamshire and into Bedfordshire and Northamptonshire, the scheme runs from Junction 13 to a point 10 kilometres north of the Newport Pagnell service area. The contract combines nine kilometres of central reservation hardening with about 170,000 sq metres of wearing course replacement.

Included in the contract work is the upgrading of the motorway lighting system with a total of 182 lighting columns to be erected.

Edmund Nuttall completed a similar lighting contract on the M1/M6 for Leicestershire County Council earlier in the year.

Another interesting feature of the contract will be the quantity of safety barrier. At almost 20,000 linear metres of open box beam, the subcontract will be one of the largest barrier contracts in the country this year.

Supervising the contract will be Buckinghamshire County Engineer's Department, and work is due to start in October.

Edmund Nuttall is an operating company of the European construction group HBC, Hollandsche Beton Groep nv.

Water reclamation works for Mowlem

CONTRACTS valued at over £10.4m have been won by Mowlem Northern Civil Engineering, a region of JOHN MOWLEM CONSTRUCTION.

The largest – at £2.5m – is for a new water reclamation works for Severn Trent Water, at Shirebrook near Mansfield.

The Leeds office is handling the contract, which is in two parts. The first 52 weeks will see the construction of inlet works, sedimentation tanks, filter beds, humus tanks, storm tanks and ancillary pumping chambers and pipework. After mechanical engineers have been on site, Mowlem will return for a further 10-week period to demolish the existing works.

The Bromborough office has begun work on a £2m contract for Cereal Partners, a joint venture between Nestlé and General Foods. Refurbishment of the existing 6,800 sq metre food processing plant at Port Causeway, Bromborough, on the A41 will be complemented by the construction of an adjacent 1,000 sq metre dispatch building complete with docking facilities and dust proofing.

The Bromborough office has won a £1.9m contract from North West Water, a £1m contract from Welsh Water and a £700,000 contract from Seven Trent Water.

In addition a £2m contract for a pumping station at Saltcoats, Ayshire, has been awarded to the Kilsyth office by Strathclyde Regional Council.

A second contract won by Kilsyth is for the construction of a relief sewer near Musselburgh race course, valued at £355,00 for Lothian regional council.

CrossRail improvements at Royal Oak

FRANK GRAHAM has been awarded another civil engineering design contract by CrossRail, this time for the covered way and ramp at the Royal Oak section of the project in West London. This follows only six weeks after being appointed for similar work at the Allen Gardens section, Shoreditch.

Commencing at the western portals of the bored tunnel drive 15 metres below Paddington, the new work comprises a 350 metre section of cut and cover, which may be carried out using continuous bored pile walls. This is followed by a 300 metre long ramp which climbs, in open cut, to connect with tracks at ground level.

The Royal Oak section is complicated by the fact that it passes under two road bridges. The value of the construction work is estimated to be £11.5m on a March 1990 basis.

The CrossRail scheme, a joint development between London Underground and British Rail Network SouthEast, involves building a twin-bore tunnel, 9.6 kms long, across central London between Paddington and Bethnal Green. This will link rail lines to Reading and Aylesbury in the west and north-west to those serving Shenfield in the East.

The £1.7bn scheme will greatly reduce journey times across the region and relieve congestion on the Underground.

Piling orders for AMEC Group specialist

AMEC PILING – the specialist piling arm of AMEC Civil Engineering, formerly known as Fairclough Civil Engineering – has secured sub-contract orders for piling and ancillary works totalling over £2.7m.

One of the largest contracts, worth £625,000, has been awarded to the company for rotary bored piling works at South Saxon's School in Hastings.

Under the contract, for main contractor Alfred McAlpine Construction Civil Engineering, AMEC Piling will install bored pile foundations for a 30,000 sq metre development over a 12-week period.

At Haverigg in Cumbria, AMEC Piling has been awarded the rotary bored piling sub-contract on a flood protection project for the National Rivers Authority.

Other contracts awarded include fixing of ground anchors in connection with the A650 Airedale route at Bingley; and work for sheet steel piling using the hydraulic Giken silent piling system.

AMEC Civil Engineering is part of AMEC GROUP.

Wimpey wins £32m order for Edinburgh retail development

WIMPEY CONSTRUCTION SCOTLAND has been appointed management contractor on Edinburgh's largest retail development, a £32.5m scheme to build the Gyle shopping centre on the South Gyle Broadway in the city centre.

The contract has been awarded to Wimpey by a consortium of clients comprising the high street retailers Marks and Spencer and Asda, and McLagan Investments.

Wimpey will complete the complex in six phases, with retailers moving in by October of next year.

Along with 120,000 sq ft of multi-occupancy units, the key elements of the phased scheme include a 70,000 sq ft store for Asda and a 110,000 sq ft retail outlet for Marks and Spencer.

The steel-frame building will be enveloped in cavity blockwork walls at the lower levels with flat metal cladding to the ceiling.

The entrance elevation will be glazed, as will the 920ft-long mall, bringing natural light to the heart of the shopping complex. The Gyle will be topped with a combination of pitched and flat roofs.

Wimpey will also complete the fit-out, including the mechanical and electrical installation to all the common and shared areas. Aside from a network of security installations which includes CCTV, the shopping centre will be fully equipped with up-to-date fire detection devices, such as a sprinkler and alarm system.

Pre-construction groundwork requires importing material for upfill so that appropriate site levels can be achieved. the ground will be strengthened with 2,000 driven cast in-situ piled foundations and a reinforced concrete ground slab.

Wimpey's parners on the project are MJSR as architect, Greeds as quantity surveyor, Montague Evans as letting agents and Bovis Construction as project manager.

The concept architect was Edinburgh-based Comprehensive Design, the landscape architect was I. White and McIlroy Coates was the graphic designer.

Water projects for Eve

NEW contracts valued at £3.58m have been won by the construction division of EVE GROUP. A £1.22m project for construction of six pumping stations and development and rehabilitation of boreholes at Enfield and Haringey for Thames Water Utilities heads the list of new works won by the division.

At English Bay on Ascension Island, Eve is carrying out over £600,000 of refurbishment and new building work at the power station and ancillary buildings for the BBC.

Other contracts include projects in London for St Thomas's Hospital, St George's Hospital and BICC Group Pension Trust. Contracts in Kent and Sussex from National Grid Co and in Surrey from Sutton District Water complete the total.

Office building in Poland

BOVIS INTERNATIONAL has been awarded a $500,000 (£291,000) construction management project in Warsaw for Hewlett Packard SA of Geneva.

The three month fast-track project involves the refurbishment and fit out of two floors of an office building, providing Hewlett Packard with 15,000 sq ft of accommodation to serve as a local headquarters for its operations in Poland.

The project is being run by Mr Henry Liszka, Bovis International's operations manager in Poland, using local resources.

Hewlett Packard's property consultant on the Warsaw project is Fuller Peiser of London.

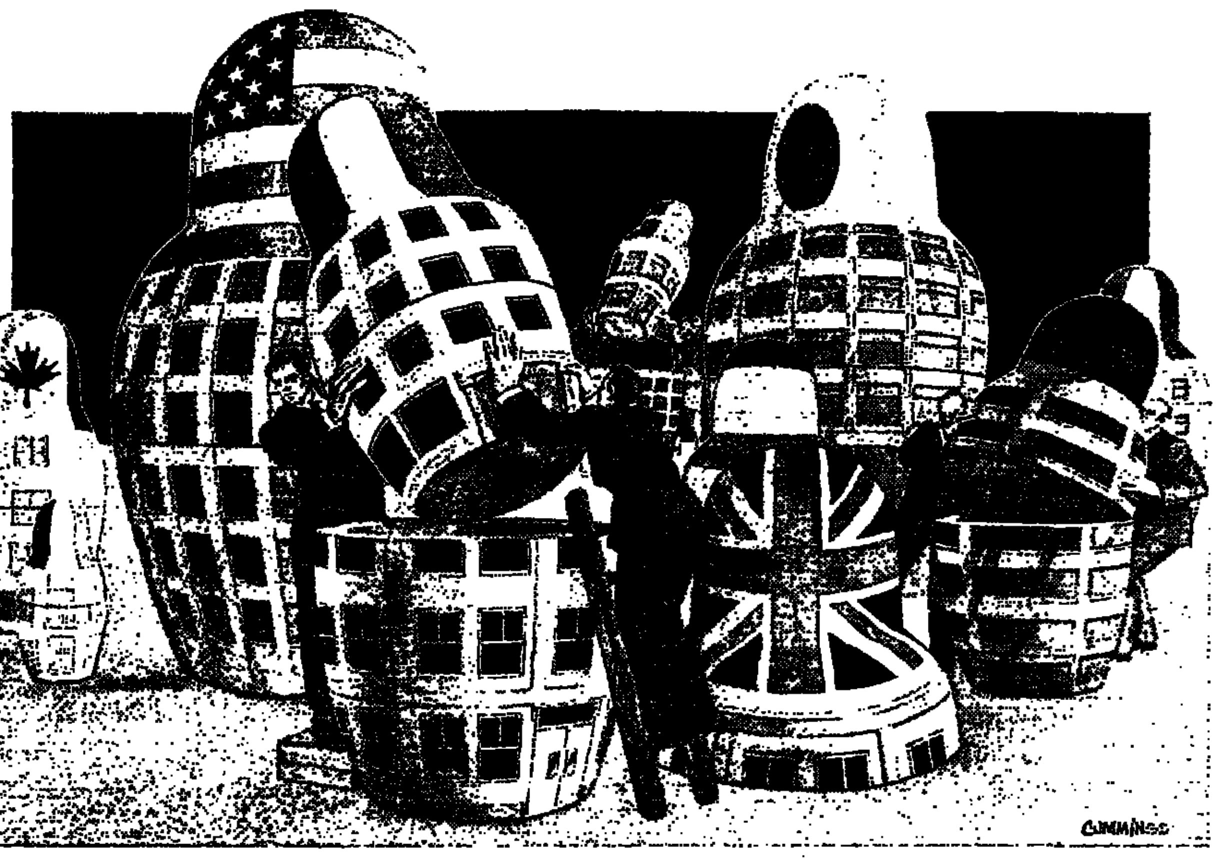
FINANCIAL TIMES SURVEY

International Mergers and Acquisitions

Monday October 19 1992

In the face of recession, activity has held up relatively well, with the restructuring of European industry and the efforts of US companies to gain a foothold in the EC the main forces at work behind cross-border acquisitions, writes **Richard Waters**

Politics and open markets



GIVEN the depth of economic despondency on both sides of the Atlantic, the mergers and acquisitions business is not doing as badly as might be expected.

It is true, of course, that activity is nothing like as high as during the takeover binge of the 1980s. Those days are unlikely to return for a generation, if at all. "I tell my younger people that, if you're lucky, you'll get three really good bull markets during your career," confides the chairman of one London merchant bank. "They'll be very lucky indeed to see another like the one that's just been."

There is also a lot less debt finance around to back big takeovers. The greater risk-aversion of banks and the lack of interest among bond market investors for anything but top-grade deals makes it harder to raise the money for large acquisitions.

On the other hand, the potential M&A market has grown enormously in scale as mergers and acquisitions have become more widely accepted as tools of corporate restructuring. Previously a pastime largely of US and UK companies, takeovers are fast becoming standard currency in the European Community, while Japanese resistance to the idea is also eroding.

As a result, international merger and acquisition activity has held up relatively well in the face of recession in the two biggest domestic takeover markets, the US and UK. In Europe, the shift is particularly pronounced. Five years ago, 70 per cent of big takeovers happened in Britain, with only 30 per cent involving a continental European company. Those proportions have since reversed.

The restructuring of European industry – and the efforts of US companies in particular to gain a foothold in the EC – remain the main forces at work driving cross-border acquisitions. Eastern Europe remains an area of great potential but little activity so far.

According to Baring Securities, UK and continental European companies were the targets in around two-thirds of all cross-border M&A transactions by value in the first half of this year. Back in 1988, North American companies could claim that distinction, as Europeans invested heavily in the US. The turnabout has come despite the weakness of the US dollar and the historically low level of US interest rates, which should in theory make this a golden age for foreign acquisitions of US companies.

Even in Europe, though, takeover activity is not what it was. With hindsight, 1990 looks like having been the peak year for European acquisitions, as single-market fever (and fears that the EC was building a fortress Europe) reached a high pitch. It was also a time when US and UK companies still had the cash to make foreign acquisitions, before their earnings came under severe pressure.

That year, reports Barings, no less than $68bn was spent on acquisitions in Europe, compared with $41bn in 1991 and $21bn in the first half of this year.

Despite this slowdown, the EC is likely to remain the most active takeover market in the foreseeable future. As the target date for the creation of the internal market draws near, much of the industrial restructuring predicted at the time that the EC's Single Market Act was passed in 1985 has yet to be completed.

In the mid-1980s, it was generally thought that cross-border acquisitions would lead to the advent of a dominant handful of companies in each of the main industries. With experience, this has proved over-simplistic. A larger proportion of corporate takeover activity has been directed at domestic deals, as companies – sometimes with the active backing of their governments – have sought first to strengthen themselves against the threat from other EC states before looking at developing abroad.

An increasing number of these strong domestic groups could now be ready to form cross-border links. The publishers Reed of the UK and Elsevier of the Netherlands, for instance, recently agreed a merger which could solve for both the problem of developing into a broad-based international business.

This could be a timely moment for such friendly mergers, says one leading M&A adviser in London. With few companies looking for big international acquisitions, such cosy deals have a better chance of passing unchallenged by unwanted predators.

In some industries – banking, automobiles and airlines, for instance – companies have taken only the first tentative steps towards co-operation beyond their own borders. Typically, these arrangements have taken the form of joint venture agreements on new projects, or small cross-shareholdings.

The first wave of tentative joint ventures in the banking industry has brought little result: the next step could be outright merger, as Europe's banks come under pressure to take a more forthright approach to their problems.

The likely result is that politics will play a bigger role in the international takeover market in the years ahead. Few countries mind too much if their leading biscuit manufacturer is taken over, but they take a rather dimmer view of the loss of domestic control over a bank or car maker. A period of covert protectionism could be in store.

The political dimension could also take on greater significance after Europe's currency market instability of recent months. The UK, for instance, has been the most open market in Europe for foreign acquisition. Last year, foreigners spent $11.6bn buying British companies, compared with the $3.3bn that UK companies spent on foreign acquisitions. If the semblance of political harmony across the continent has been disturbed, will the UK remain as wide open to foreign takeovers as it has been in the past?

Against this background, the M&A business has itself become an interesting case study for M&A advisers. It reads like this: a domestic business, once limited largely to the Anglo-Saxon world, has gone international. This has left many of the experts in the industry looking too small or domestic, lacking the capital and the distribution network to capitalise on their expertise. At the same time, a downturn in the business has intensified the pressure for consolidation.

The answer, most M&A advisers would agree, is for more mergers or acquisitions. Yet investment banks generally guard their independence as jealously as the companies they advise. The path to a super-league of international M&A advisers is likely to be a tortuous one.

The experience of the UK's investment (or merchant) banks is a case in point. Five years ago, a handful of powerful houses were riding the crest of a particularly strong domestic takeover wave. The wave has since passed, leaving several either washed up on the shore or looking increasingly adrift.

First to go was Morgan Grenfell, which opted for a takeover by Deutsche Bank to escape an aggressive approach from the French Suez group. Despite trepidation inside the bank at the time about the potential culture clash with Deutsche, Morgan has remained one of the success stories in M&A, adding an increasing involvement in Germany to its domestic UK base. However, that does not mean Morgan's future is assured. It has failed to provide Deutsche with a decent return on its investment so far.

As securities houses which sold themselves to commercial banks have found out in recent years, bank parents eventually lose patience and move to take a more direct involvement in their precious offspring.

Others have tried joint ventures of varying types. Kleinwort Benson, for instance, sold 4.5 per cent of its shares to Banque Nationale de Paris and has talked about greater co-operation with both BNP and Dresdner.

Barings, on the other hand, took a 40 per cent stake a year ago in Dillon Read, the US investment bank, in an attempt to do what no UK-based merchant bank has so far achieved, with the possible exception of Lazard: establish a strong transatlantic business. In recent weeks Samuel Montagu has taken a more modest approach to the same problem, concluding an agreement with PaineWebber to span the Atlantic.

As corporate financiers are the first to admit, joint ventures frequently fail to achieve their desired results, often representing untidy compromises when an all-out takeover would work better. It seems a fair bet to assume that at least some of these relationships will harden into outright mergers or break up altogether in due course.

Meanwhile, two other UK merchant banks – S G Warburg and Schroder Wagg – have pressed ahead with independent strategies and built on their international reputations, while a third, Lazard Brothers, has succeeded in strengthening its filial ties with Lazard Frères in Paris and New York.

Yet these houses are competing with a growing band of international M&A advisers, led by banks such as Goldman Sachs and Credit Suisse First Boston, whose skills and contacts in Europe's M&A business are already well-developed. Too many domestic brand names, and a growing number of international ones: the M&A industry could do with a spot of sorting out itself.

IN THIS SURVEY

Anthony Robinson on prospects in eastern Europe

West is still cautious

THE COLLAPSE of Europe's east-west barriers opened up a vast new area to companies looking for new markets and acquisitions to speed their entry into them. From the Elbe to the Pacific Ocean the demise of communism sent western companies scurrying to take advantage of new low-cost production areas close to rich European Community markets.

With a few exceptions, however, such as the US General Electric corporation's pioneering takeover over the Hungarian Tungsram lighting company, or Volkswagen's stage-by-stage purchase of a controlling 70 per cent stake in Skoda Automobila, the Czech car company, the amount of equity investment involved has been small by western standards.

The initial target areas have been cars, trucks, household appliances, tobacco, pulp and paper, glass, cement, breweries, furniture, food, pharmaceuticals and other consumer goods. The best prices have been obtained where foreign consultants and merchant bankers have been able to attract several potential buyers prepared to bid against each other. The lowest prices have been realised where potential buyers were few, where modernisation or environmental reclamation costs were high or where building a new plant on a greenfield site was a credible alternative.

The spreading recession in most western markets and greater awareness of the cost and previously unexpected difficulties associated with buying assets in former communist countries, has also led to greater caution and unwillingness to pay high prices for assets which are often technologically obsolescent or burdened with severe ecological problems.

Assets left too long with communist managers deteriorate in net value

Experience has also shown that assets left too long in the hands of their former communist managers before sale deteriorate alarmingly in net value. This is due to asset disposals and accumulating debts with other enterprises racked up by managers facing eventual privatisation but having to survive somehow in the meantime.

But this has not deterred consumer companies looking for established brands to build on or supplant with their own, or strategic investors in sectors like power engineering, where the Swiss-Swedish Asea Brown Boveri moved in early and fast to Poland and Hungary, and big potential growth areas such as telecommunications.

Initially, most investment commitments by western companies, including new greenfield projects, have been modest. Prudent caution in what was practically unknown territory only three years ago has been reinforced by the positive experience of companies which have obtained large productivity gains with little initial investment. Electrolux of Sweden and the ABB group are among several multi-nationals which reaped big productivity gains through injections of managerial know-how, low-cost organisational changes, and the slimming down of bloated labour forces.

Thus far western companies, including thousands of small and medium-size private companies – mainly from Germany, Austria, Italy and France – have committed less than $7bn to the region. Hungary has emerged as the clear favourite of foreign investors, followed by Czechoslovakia and Poland.

Uptil now, few foreign investors have been attracted to Romania, despite its low foreign debt and 23m-strong potential market. Bulgaria, which has only just resumed partial interest repayments after declaring a unilateral moratorium on its $12bn foreign debt, also suffers from its distance from European Community markets and the extent of its former dependence on now collapsed Comecon markets.

After initial euphoria at the prospect of opening up the vast Soviet market, foreign investors have also taken fright at the scale of the former Soviet Union's problems and the degree of political uncertainty.

The pace of acquisitions has been set largely by the speed and efficiency of the privatisation procedures in the various countries. For unlike acquisitions in other parts of the globe the seller in this region is seldom a private owner. The seller is overwhelmingly the state or a municipality, either directly or through the various privatisation agencies set up to provide a legal and institutional structure for foreign acquisitions.

The various privatisation ministries or agencies are also involved in organising mass privatisation programmes (MPPs). Some potential foreign investors see the MPPs, especially in Czechoslovakia, as eventually offering opportunities to make acquisitions cheaply by buying up vouchers from millions of cash-strapped, unsophisticated first-time investors.

This remains to be seen. But in the meanwhile foreign buyers have built up a precious data bank of experience over the last three years.

According to Mr Andrejs Cakste, the senior vice president in charge of mergers and acquisitions for Electrolux, the Swedish-based domestic appliance group, the specific characteristics for acquiring a company in eastern Europe include a high degree of politics, experience at all levels and above all the need to pay close attention to ecological and other problems linked to the specific nature of communist-style economic management.

The scale of the former Soviet Union's problems has frightened investors

In an area where basic concepts such as market clearing prices, discounted cash flows, income streams, depreciation and even working capital were largely unknown, it is hardly surprising that one of the first problems faced by potential foreign buyers was that of grossly inflated estimates of the real value of the assets on sale.

Three years into the process, however, much has changed. Obtaining the highest possible price, and being able to fend off accusations of selling out the "national silver" to foreigners for a pittance is less of a priority for the privatisation agencies.

Instead, the emphasis is increasingly on seeking a foreign buyer who will give the best employment guarantees and, above all, provide the best assurances of future investment and inputs of managerial skill and new technology.

Signs of growing national and ethnic intolerance are clouds on the horizon which could change the political climate for foreign investment and acquisitions. But the consensus now among policy makers in the region is that attracting foreign buyers willing to modernise and integrate former state enterprises into the world economy is the best way to ensure the irreversibility of the democratic social and political changes since the collapse of Soviet power.

Despite the downturn in US deals, there has been some activity

A stream of consolidation

"FEAST AND famine" well describes the switch from the bid-heady days of the 1980s to the deal-starved climate of the 1990s. For the moment at least – and despite some optimistic noises by US investment bankers in the early summer – the dearth of deals continues.

A few statistics tell the story bluntly. Since the start of 1992, only nine deals involving US targets and topping the $1bn-mark have been announced. In the third quarter alone, there were just two – namely the purchase of Fisher Controls International by Emerson Electric from Monsanto for $1.3bn, and Mellon Bank's acquisition of Boston Company from American Express's Shearson Lehman subsidiary for $1.45bn.

More broadly, the dollar volume for merger-related activity involving US targets totalled just $127.8bn during the first nine months of 1992, according to Securities Data. This represented an 18 per cent fall from the already depressed figure seen in the same period of 1991.

The decline in the US market was somewhat more pronounced than elsewhere: Securities Data calculates that global merger and acquisition activity over the same period reached 10,600 deals, with a value of $288.1bn. That was a 16 per cent decline from the $341.2bn-worth of the deals (11,725 separate transactions) seen in the first nine months of 1991.

Largest acquisitions of 1992

Target	Acquirer	Value
Centel Corp	Sprint Corp	$2.85bn
Gulf States Utilities	Entergy Corp	$2.28bn
Boston Company	Mellon Bank	$1.45bn
American Re-Insurance	American Re Corp	$1.43bn
Fisher Controls	Emerson Electric	$1.27bn
Valley National Corp	Bank One	$1.19bn
Chevron PBC	Pennzoil	$1.17bn
AFG Industries	Asahi Glass	$1.1bn
Wetterau	Super Valu	$1.08bn
Puget Sound Bancorp	Keycorp	$889.8m

Source: Securities Data

However, despite these generally depressed levels of merger activity, some trends have been discernible. The first, and most obvious, is the continued consolidation in certain specific industrial and commercial sectors.

Perhaps this has been most visible in the commercial banking industry. On the one hand, many banks are still struggling under the weight of souring property-related investments and loans, and eager to prune costs via economies of scale.

On the other, some relatively healthy institutions have taken advantage of their neighbours' misfortunes and are aggressively expanding. This has led to the creation of "super-regional" banks – such as Banc One, the expansion-minded institution centred in Columbus, Ohio, and North Carolina-based Nationsbank – and spurred a multitude of deals.

This year alone, for example, Banc One has announced plans to lap up the likes of First Community Bancorp, in a $125m stock swap deal, Key Centurian Bancshares of West Virginia for $536m, and Valley National Bank of Arizona for $1.2bn.

But banking is by no means the only sector where consolidation has prompted an upturn in M&A business. In the telecommunications field, for example, there has been a steady stream of tie-ups – thanks to technological and regulatory changes, and the pressures of international competition.

The biggest deal proposed in the sector this year – in fact, the largest transaction announced in any sector in 1992 – has been the $2.85bn merger between Sprint, the third largest US long-distance telephone company, and Centel, a large Chicago-based local telephone operator. As Sprint's chairman was quick to point out, the resulting group would be the only US operator in all three major telecommunications markets – namely, long distance, local services and cellular communications.

Foreigners have had a role in this process, too. In some industries, consolidation is a global phenomenon, rather than a domestic one. Accordingly, acquisition interest comes outside US shores as well as within them and – from time to time – raises issues of foreign ownership of key domestic assets.

The airline sector is a case in point. Recession in the big domestic market, overcapacity and acute price competition between carriers have combined to create losses of around $7bn in the industry since 1990. This, in turn, has caused US airlines to focus on international expansion, while European carriers have realised that this is probably the last chance to grab a toehold the US market – unappealing at present, but hopefully profitable down the road.

The dealing room at Shearson Lehman Hutton, New York City (picture by Glyn Genin)

So the deal proposals have flowed. British Airways, for example, wants to invest $750m in USAir, the sixth largest US airline; Lufthansa, Air Canada and Scandinavian Air Systems (SAS) have all shown some interest in Continental Airlines; KLM wants to merge operationally with Northwest Airlines.

All this has caused much angst over bilateral aviation arrangements, with the US airlines generally demanding "open skies" as a pre-condition to allowing foreign operators into their home market. Whether the powerful US "mega-carriers" get their way on this remains to be seen: the degree to which foreign investment will be permitted in the US airline sector remains extremely moot.

In general, payment for acquisitions this year has come either from the cash resources of the purchaser, or via some form of share swap deal. Despite the relaxation of controls on "highly leveraged transactions", bank finance and junk bond financing has played a minor role.

One sizeable deal proved the exception. That was the purchase of American Re-Insurance Company by a management-led, investor group including New York's Kolhberg, Kravis, Roberts, from Aetna, the large US composite insurer. About three-quarters of the $1.43bn purchase price was raised through bank finance and the issuance of debt securities.

Finally, if mergers and acquisitions have been on a declining trend, at least there has been some work in the "demerger" area. Several large companies have seen the advantage of "spinning off" laggardly subsidiaries to their shareholders as free-standing quoted entities, thus freeing up the remaining businesses.

These have included Ralston Purina, the St Louis-based consumer products company, which has announced plans to shed its Continental Baking Company subsidiary in this manner; Union Carbide, with its industrial gases operations; and, most recently, Marriott, which plans to separate its property assets from its more buoyant hotel and lodging management business.

Nikki Tait

New York

Universal Studios, part of MCA: not a smash hit for the Japanese

ACTIVITY IN JAPAN

Splashing out is a thing of the past

GONE ARE the days when Japanese corporations threw money into mergers and acquisitions in the notion that they were an immediate and painless way to expand market share or diversify into a promising new field.

In their place, a more temperate era has emerged in which funding is tight and deals are more likely to involve relatively low-risk minority stakes and strategic alliances than splashy multi-billion dollar buyouts.

The slowdown in activity is apparent in figures compiled by Yamaichi Securities for the first half of 1992. They show the number of deals involving Japanese firms – outbound, inbound and domestic transactions, including majority and minority stakes – fell 25 per cent from the year-earlier level to 245.

Of the total, values were disclosed for 117 deals and fell a more modest 8 per cent to Y358.3bn. That is still well behind last year's pace when Y965bn in M&A activity was made public and a mere fraction of 1989's record Y3.1 trillion. The average value of transactions likewise has tumbled from Y9.1bn in 1989 to Y3.5bn last year and Y3.1bn in the first six months of 1992.

A fall in the number of outbound and domestic M&A transactions accounted for the overall declines, retreating 33 per cent and 24 per cent respectively. However, this masks a near-doubling of the value of domestic transactions in the first January-June period.

"Domestic transactions are now increasing more quickly than over the last couple of years due to the financial situation and restructuring as companies go back to their core businesses," says Mr Masaharu Yonezawa, senior adviser to Recof International, an M&A boutique. "In our organisation, we're the busiest we've been in our five years of operation because of domestic transactions."

With the domestic market heating up, 18 inbound transactions were announced in the half-year to June, already equalling the 1991 total. However, the value of transactions has fallen off, indicating that it is relatively small firms that are on the block.

The overseas M&A market, where 105 deals were reported in the first half, felt the effects of poor results among previous buyouts, financial and economic troubles at home and a continued recession in the US, UK and Europe.

The US nevertheless maintained its premier destination status, accounting for over 40 per cent of Japanese outbound transactions, or 46 in total, followed by the EC with 26, according to Yamaichi. The figures were down 29 per cent and 47 per cent respectively. In contrast, activity in neighbouring Asian countries and other areas held steady, accounting for about 20 per cent of the outbound deals.

It is not surprising that Japanese firms are showing an extra measure of caution regarding overseas M&A, given their late-1980s blunders and excesses. No deal typifies this better than Bridgestone's takeover in the spring of 1988 of Firestone Tire & Rubber of the US for $2.6bn.

It was the largest Japanese manufacturing buyout to date. Mr Akira Yeiri, president of Bridgestone, agreed to pay $80 a share for antiquated Firestone without so much as an on-site inspection, just nine days after Italy's Pirelli offered $58.

Since then, Bridgestone has pumped well over $1bn more into Firestone and seen its own results suffer as a consequence.

Nor has Matsushita Electric Industrial's purchase of movie maker MCA for Y780bn proved a smash hit. Sony has fared somewhat better in turning around Sony Pictures Entertainment, formerly Columbia Pictures Entertainment. But even there the synergies between entertainment hardware and software, cited as a cause for the deal, remain elusive.

The fall in the value of transactions indicates that it is relatively small firms that are on the block

The bottom line is that Japan Inc.'s view of M&A has changed dramatically over the past few years, as has its position in the business world. While strategic deals are continuing, too many acquisitions have gone sour, yielded disappointing profits and involved unexpectedly severe headaches to expect another repeat of the late-1980s anytime soon.

"Cross-border transactions will be revived in about two years, both inbound and outbound," predicts Recof's Mr Yonezawa. "Japanese firms are getting more clever and are very cautious. When faced with any opportunity, they conduct due diligence and consider pricing carefully.

"The problem now is a credit squeeze and the fact that executives can't see what's going on in the global economy. When they have a clearer idea in one or two years, I think they will start to take up opportunities, whether they involve closing factories, making greenfield investments or conducting M&A."

Among the 122 domestic deals, Yamaichi noted a decline in activity in the materials, processing, commerce and other sectors amid anaemic demand and a general view among corporate strategists that the nation is bloated from excessive capital spending over the past several years. However, the more than doubling in the value of such deals in the first six months of 1992 may reflect the distress of many mid-sized sellers.

It comes as no surprise that the number of inbound transactions is growing at a time when many local companies are short of cash and more intent on restructuring and slashing their own capital spending than in taking on someone else's problems.

One leading buyout recently was the US firm S C Johnson's multi-billion yen acquisition of 74.5 per cent of Lion Insecticide, formerly a subsidiary of Lion Corp. General Motors' affiliate Electronic Data Services also purchased 19.9 per cent of troubled software developer Japan Systems Corp. for Y3.75bn. In the pharmaceutical industry, Pfizer of the US took over Koshin Medical for Y3bn.

One deal that typifies the incentives of many buyers and sellers is American toy maker Hasbro's buyout of Nomura Toys from owner Koichi Nomura. Hasbro, faced with steady inroads into its home market by Japanese competitors, is seeking to gain a foothold and distribution in Japan. Meanwhile, Nomura reportedly has had an increasingly hard time taking on giants like Nintendo and Sega without a heavyweight partner.

Indeed, it is family owned businesses, especially those founded in the early post-war years by owners now reaching retirement age, that offer the best pickings for foreigners. In addition to succession problems, such firms often lack necessary product development or marketing muscle to go it alone in increasingly liberalised markets.

"Interest is rising in inward transactions, although the number of deals is still small by international standards," says Mr Yonezawa. "The transactions normally take time, so even though there have not been many announcements so far, various negotiations are going on under water. I expect more announcements this year and in 1993. The timing is very good with the Japanese real estate and stock markets not as high as before."

Other foreign firms, particularly in the drug and chemical industries, make attractive suitors because of their worldwide distribution networks and often superior technology.

All told, the number and value of inbound M&A deals appear set to increase further as Japanese firms increasingly find themselves facing the same sort of competitive free-for-all at home that foreign rivals have grappled with for years in other leading markets.

Neil Weinberg
Tokyo

David Waller on changing attitudes in Germany

OK to sell the silver

THERE WAS a time when selling a business in Germany was not merely socially unacceptable – it was a mark of downright social failure.

But, says Mr Paul Achleitner, head of mergers and acquisitions for German-speaking countries at Goldman Sachs, this has changed in the two years since German reunification.

"You have the whole economy up for sale," he observes, referring to the Treuhand's campaign to sell eastern German enterprises to the private sector. So far the Treuhand – the government's privatisation agency – has managed to offload more than 9,000 former eastern German companies, and there are still nearly 4,000 enterprises left to be privatised.

As a result of this unprecedented sell-off, Germans have altered their preconceptions about the buying and selling of companies, Mr Achleitner argues. It has become not just socially acceptable, but essential for this M&A activity to take place, for the good of the German economy as a whole.

Moreover, the Treuhand has overcome its initial reluctance to use outside advisers and has become a major source of business for large numbers of investment banks and consultants which otherwise would have found it difficult to find a foothold in Germany.

In general, German companies employ external financial advisers in some 20 per cent of all transactions, preferring to rely on either in-house expertise or on their commercial banking contacts. Investment bankers believe that the more familiar their services become in Germany, the more business they will be able to do.

They are confident despite a perceptible slowing down in the number and size of transactions done by German companies during the past year. Figures from M & A International, a consulting firm near Frankfurt, show that the number of deals involving German companies fell by 9 per cent from 953 in the first half of 1991 to 843 in the first six months of the current year.

Without the impetus of privatisation in the east, it is likely that the number of deals would have been down to the 700 or so recorded in the first six months of 1989 and 1990.

Large, spectacular transactions have been thin on the ground this year. The Hoesch/Krupp merger is still to be completed, blocked by a technicality, and Pirelli continues to wrangle with the Continental tyre company in which it holds a 39 per cent stake.

Aachener & Münchener Beteiligungs, Germany's second largest insurance company after Allianz, came to an agreement with Assurances Générales de Paris, the large French insurance company which holds a 25 per cent-plus in the German company, but up until recently was not allowed to exercise the votes on its full stake.

The role played by advisers in these "situations" was limited. Krupp devised its highly effective strategy to gain control of Hoesch without the help of an Anglo-American investment bank; Hoesch employed S G Warburg after its days as an independent company were already numbered. Morgan Grenfell – the Deutsche Bank M&A subsidiary – continued to advise Continental.

Large, spectacular transactions have been thin on the ground this year

Warburg was advising AMB's management on its defence against AGF, but its strategy was undermined after the insurance company's supervisory board cut a deal with the French, over the heads of the management board. One condition of the agreement was that AGF would help AMB find a buyer for its majority-owned BfG Bank subsidiary, and Morgan Grenfell has landed the role as adviser to shareholders in BfG in current sale negotiations.

Many transactions receive little or no publicity, and it is these, less sensational deals which keep investment bankers busy in Germany – and give them hope for the future despite the current slowdown in the economy.

There are two distinct target markets: the medium-sized companies which constitute the Mittelstand, and the very large conglomerates which may be persuaded to divest a subsidiary or two in the name of greater efficiency.

Some 10,000 small to medium-sized companies account for half Germany's GNP. Many of these companies, built up in the decades since the war, are in difficulties because of the economy, others face the fabled "succession" problem as young inheritors feel no inclination to take over day-to-day management responsibilities.

These pressures mean that an increasing number of Mittelstand companies will come up for sale, providing an opportunity for investment banks, particularly those able to scout abroad for potential buyers.

The structure of larger companies, meanwhile, often reflects historical accident and the empire-building tendencies of earlier generations of management – rather than hard thinking about strategic priorities. Nowadays, as market conditions deteriorate and company managers begin to feel pressure from institutional shareholders to perform, large companies have good reason to contemplate spinning-off non-core businesses.

Goldman Sachs can point to four big transactions this year when it has advised family shareholders on the sale of their businesses: the best-known is that of Hugo Boss, the menswear group sold to the Italian Marzotto group. Another is the Krantz plant construction company acquired by Deutsche Babcock. It is now working on 24 M&A projects in Germany, of which 20 are sales mandates or divestitures.

The Krupp takeover of Hoesch has highlighted that hostile bids can be successful in Germany, although no foreign investment bank has dared risk its domestic contacts by bringing in a foreign and unfriendly bidder for a big German company. Morgan Grenfell in Frankfurt is however advising two large, but identified German companies on defence strategies.

Tim Dickson reports that, while Europe has seen fewer cross-border mergers recently, more may be on the way

Euro-scepticism slows an inevitable process

THE PACE of cross-border European mergers and acquisitions has slowed markedly over the last three months. This lull in activity – attributed by experts to currency uncertainty and the growing strain of high real interest rates – is all the more disappointing after a pronounced recovery in the volume and value of deals in the first half of 1992.

Figures from KPMG show that the number of deals last year averaged just 250 a quarter (around $6bn every three months) – significantly less than in the go-go days of 1988-90.

The first and second quarters of 1992, by contrast, saw cross-border transactions to the value of $11.8bn and $15.7bn respectively, encouraging hopes of a sustained pick-up throughout the rest of the year. It is in this context that the 160 deals recorded between July and September – worth $7.7bn – will be seen as something of a setback.

One obvious question is whether Euro-scepticism – as manifested in the French and Danish referendums and opposition to the Maastricht treaty – may have dealt a mortal blow to European corporate activity. The answer is almost certainly not.

Taking the long view, the current process of European integration can be seen to date back to the postwar years. Initially, it developed in a largely political framework, industrial consolidation starting in earnest only in the early 1980s.

The momentum gathered pace in the middle of the decade with the adoption of the single market programme and all the attendant hype. But just as all trade barriers will not be lifted by December 31 1992, so the restructuring spurred on by this deadline will continue, probably well into the 21st century.

"The present uncertainty is not going to stop deals," notes Mr Vincent Thompson of Hambros Bank. "Companies still view the European market as of fundamental importance, regardless of doubts over Maastricht."

Mr Thompson acknowledges, though, that events of recent weeks have done nothing to whet the appetite of foreign predators eyeing up UK targets, while erratic stock markets tend to discourage the flow of deals.

According to Mr Nick Cowley at KPMG's international headquarters in Amsterdam, booming economies in the late 1980s often masked the cost of strategic errors. "In current economic conditions buyers will have to be more selective, and in some countries of course the currency risk has now returned. The ERM undoubtedly encouraged deals because the risks had in effect been reduced to the width of the relevant currency bands."

Mr Cowley emphasises, though, that the single European market is already a reality. "Companies will increasingly be up against pan-European competitors, which means there is bound to be more consolidation."

French companies, so far at any rate, have proved to be the most active cross-border raiders. Between January 1 1988 and June 30 this year they splashed out $37.5bn on 775 foreign acquisitions, against $20bn and $10.7bn by their British and German counterparts (representing 982 and 335 deals respectively). Americans and Australians have been the most persistent predators from outside the EC, though the value of HSBC's bid for Midland Bank on its own was roughly 150 per cent that of all the Australian deals over the period from 1988 to mid-1992.

Countries which have attracted most cross-border interest in these four and a half years are the UK (where companies worth more than $85bn have been sold to foreigners), France ($23.3bn) and Germany ($22bn).

The game from now on will be to spot which sectors are ripe for further M&A activity. Those which have consistently featured in the last few years include oil and gas, chemicals and pharmaceuticals, electricals and electronics, food, drink and tobacco, financial services, transportation, and paper and board products.

Many experts believe that the process of consolidation in the food industry still has further to go. Certain subsectors such as chocolate – where two-thirds of the European market is controlled by five companies – are admittedly highly concentrated. Hence the fierce battle between the leading US food companies Kraft General Foods and Hershey to take over Freia Marabou of Norway, a company with proven brands and a strong market position.

That said, the structure of the industry in, say, Italy – where there are some 10 times as many food companies as there are in France – points to continued activity in some parts of the European Community. Changing consumer tastes are likely to ensure that, though whether it will extend to cross-border venturing in food retailing, as some observers suppose, is another matter.

Corporate strategists in the financial services sector have also been busy, though much of the concentration has taken place within national borders. Countries like Italy, Spain and Portugal have specifically encouraged mergers as a means of bolstering their banking systems ahead of the expected foreign onslaught which 1993 promises to bring.

Full-blown insurance mergers have been few and far between. This year's ill-fated effort by Denmark's Hafnia and Norway's Uni Storebrand to forge a major Scandinavian grouping is likely to serve as a discouragement for some time to come.

However, big French companies such as UAP and Assurances Generales de France have discreetly been building up European networks; while they and other continental giants have their hands full at the moment, Brussels' efforts to prise open the notoriously restrictive European insurance market may well lead to a new wave of takeovers.

Brussels' efforts to prise open the notoriously restrictive European insurance market may well lead to a new wave of takeovers

Similarly, the EC's liberalising moves in air transport may act as a spur to consolidation. *That said, although Air France has finally joined forces with Belgium's Sabena, the highly nationalistic airline business will not easily conform to sensible economies of scale.* Equally, it may be wishful thinking to assume that there will be *rationalisation in* the motor industry simply because the US market can survive with just three major manufacturers.

Perhaps the next M&A wave will be characterised by more joint ventures, as architects of deals seek to overcome these sensitivities. Transactions may also be structured more along the lines of the recent Reed-Elsevier merger, with the burden of financing reduced.

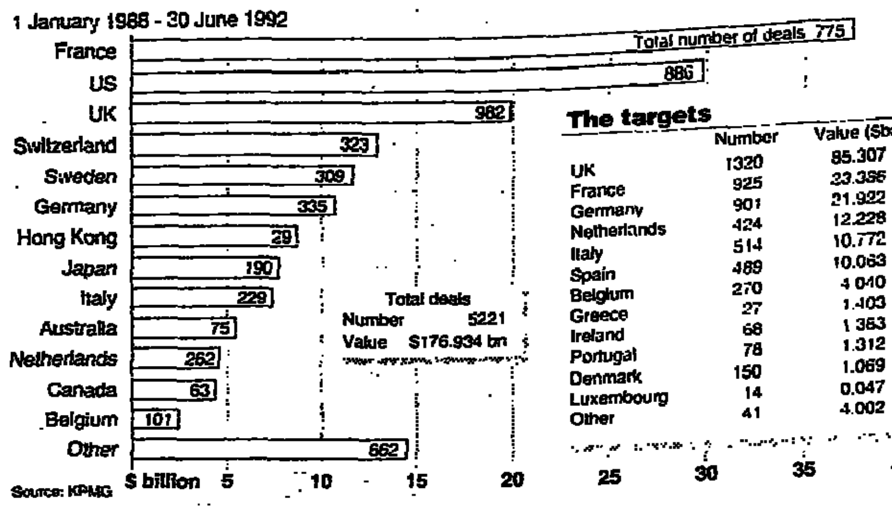
Top Cross-Border Deals involving EC companies

January 1988 - June 1992

Buyer	Target	Industry	Year	US$m
HongKong & Shanghai Bank	Midland Bank (UK)	Banking	1992	7,386
Grand Metropolitan (UK)	Pillsbury (US)	Food	1988	5,750
BAT (UK)	Farmers Group (US)	Insurance	1988	5,200
Volkswagen (Germany)	Skoda (Czech) (33% stake)	Auto manufacture	1990	5,039
Nestlé (Switzerland)	Rowntree (UK)	Food	1988	4,917
Victoire (France)	Colonia (Germany)	Insurance	1989	4,685
Pechiney (France)	American National Can (US)	Packaging	1988	4,000
French group led by Credit Lyonnais	Executive Life (US)	Insurance	1991	3,750
Alcatel Alsthom (France)	Alcatel NV (Netherlands)	Telecommunications	1992	3,700
Allianz (Germany)	Firemans Fund (US)	Insurance	1990	3,300
Rhone Poulenc (France)	Rorer (US)	Pharmaceuticals	1990	3,200
Elf Aquitaine (France), Thyssen and Deutsche SB Kauf (Germany)	Minol and Leuna oil refinery (Germany)	Petrol filling stations and oil refinery	1992	3,086
Telefonica (Spain) and Citibank (US)	Entel South (Argentina)	Telecommunications	1990	2,830
Nestlé (Switzerland)	Source Perrier (France)	Mineral water	1992	2,760
Northern Telecom (Canada)	STC (UK)	Telecommunications	1990	2,600
Maxwell Communication (UK)	Macmillan (US)	Publishing	1988	2,600
Ford (US)	Jaguar (UK)	Auto manufacture	1989	2,458
France Telecom, Stet (Italy) and JP Morgan (US)	Entel North (Argentina)	Telecommunications	1990	2,412
Stora (Sweden)	Feldmuhle Nobel (Germany)	Paper and board products	1990	2,400
Seibu Saison (Japan)	Inter-Continental Hotels (UK)	Hotels	1988	2,268
Schneider (France)	Square D (US)	Electrical products	1991	2,230
CGE (France)	Teletra (Italy)	Telecommunications	1990	2,228
Siemens (Germany), GEC (UK)	Plessey (UK)	Electronics	1989	2,038*
Fiat (Italy)	FSM (Poland)	Auto manufacture	1992	2,000
St Gobain (France)	Norton (US)	Abrasives	1990	2,000
Bass (UK)	Holiday Inns (US)	Hotels	1989	2,000

*Siemens share only. Source: KPMG

European Community: cross-border predators



Tracy Corrigan says the financing of deals is now more risk-sensitive

Purse strings become tighter

THE FINANCING of mergers and acquisitions has become more risk-sensitive in the course of the past year. At the same time as the pace of mergers and acquisitions has slowed, the financing of M&A business has become increasingly selective.

"Financing has become much more difficult for entrepreneurial companies," says one banker. "High-risk financing is just not happening."

Capital constraints and a bad record on loans to highly leveraged companies have tightened the purse strings of banks that are considering acquisition-related lending.

The highly leveraged transactions (HLTs) which fuelled management buyouts and leveraged buyouts in the 1980s, mainly in the US, are no longer available. On the other hand, there is a continuing trend for the deleveraging of companies which became heavily indebted through MBOs and LBOs in the 1980s.

Strong equity markets for much of the past two years have enabled companies, particularly in the US, which had borrowed in order to acquire during the 1980s takeover boom, to refinance their debts and rebuild their balance sheets. The US junk or high yield bond market, after several years of inactivity, has been showing signs of life, but companies have been returning to that market mainly to refinance outstanding bonds.

A rare use of the bond market for the initial financing of a takeover

Some companies have been able to achieve considerable cost savings, where improving credit ratings have been coincided with a low point in the US interest rate cycle.

But after a strong start to the year, equity markets have become more difficult, and sources of funding have dried up again.

As a result, the limited activity in the M&A market has been orchestrated largely by big, cash-rich companies, such as Nestlé, the Swiss food group which recently won its fiercely contested FFr13.42bn bid for Perrier, the French mineral water company. Another example is Kraft General Foods International, part of the Philip Morris group of the US, which made an agreed $1.5bn bid for Freia Marabou, the leading chocolate, confectionery and snacks producer in Scandinavia.

Recently, Hanson, the Anglo-American conglomerate, launched a £780m cash bid for Ranks Hovis McDougall, the milling, baking and grocery products group, the first sizeable hostile takeover in the UK for some months.

"Some companies can use cash, or take up bank credit lines, to buy first and worry about refinancing later, because they have the capital strength to separate those two decisions," says one banker. "Smaller companies do not have that luxury."

The difficulties experienced by less cash-rich companies in securing funding for takeovers may help spawn fresh approaches to acquisition financing. The most innovative financing so far this year was Hongkong and Shanghai Bank's funding of its £3.6bn takeover of Midland Bank, which involved a rare use of the bond market for the initial financing of a takeover.

HSBC Holdings' £448m 10-year subordinated Eurobond provided a number of subsidiary benefits, including boosting capital and avoiding excessive dilution of shareholders' funds.

It is widely thought that the offer of more generous terms on the bonds – and a cash alternative – when Hongkong Bank increased its bid on June 2 helped secure the deal by edging out Lloyds Bank, its rival.

Initially, the bonds were to be priced to yield 160 basis points above the 10-year gilt yield, a spread which was generally considered inadequate given the credit quality of the offering: deeply subordinated debt issued by a bank holding company. Under the increased bid, Hongkong Bank offered par bonds at a spread of 240 basis points above the comparable gilt yield, and a cash alternative for investors who did not want to take the bonds. Since then, the spread has tightened to around 160 basis points, creating profits for shareholders who took the bonds rather than the cash.

The offering is the first of its kind in the Eurobond market. Because Eurobonds are internationally-traded bearer instruments, the structure facilitated distribution to a much wider range of investors than would have been possible with a domestic sterling bond issue.

The existence of broad overseas demand helped buoy confidence in the UK, where the structure of the deal could have severely limited distribution.

Although HSBC's approach may be imitated by other banks, corporates are unlikely to follow the same path.

"Accounting for banks recognises that subordinated debt is close to equity; corporate accounting does not accept that," says one corporate financier.

There are still examples, if rare ones, of companies taking on large amounts of debt to fund ambitious acquisitions. The $1.85bn bid for Spain's two largest cement companies, Valenciana and Sanson, by Cementos Mexicanos (Cemex) will increase its long-term debt by $760m – assuming refinancing and asset sales go according to plan.

But for the moment, most companies are not keen to take on substantial amounts of new debt, and the demand for acquisition-related financing appears likely to remain at a low ebb, with little sign of a major pick-up in M&A activity in sight.

Profile: LAZARD

Why there may be a game plan after all

THERE DOES not appear to be anything as portentous as a Grand Strategy at Lazard. Other investment banks talk of building global networks and extending into new businesses which offer "synergies" with what they already do. These banks are driven by the same remorseless logic with which they try to infect their clients: that a small handful of global *firms will come to dominate* all international industries, leaving smaller or domestic rivals out in the cold.

By comparison, the Lazard grouping (Lazard Frères in Paris and New York and Lazard Brothers in London) appears at *times* not be following a powerful game plan. It was criticised in the mid-1980s for not participating in the orgy of *mergers* in London designed to create full-service investment banks – only to emerge as one of the success *stories of that super-heated* decade in the mergers and acquisitions business.

Now, with conventional wisdom preaching concentration on core businesses, Lazard has been busy spinning into new areas. It was one of the first London banks to begin trading the debt of lesser developed countries, for instance – now one of the biggest profit-earners for the investment banking world.

Mr Michel David-Weill, the French chairman of Lazard Frères and, until a year ago, of Lazard Brothers, says the Lazard houses are constantly on the look out for new businesses. "During the high days of junk bonds, we weren't in them. Now we are in them, as an issuer in the US. Counter-cyclically, there are types of financing we can do."

There seem to be three principles controlling the expansion of Lazard. First, new businesses have to offer a good profit margin (or, as the smooth Mr David-Weill prefers to put it, it has to be something where Lazard can "add something" rather than just be one of the crowd).

Second, they must be low users of capital. Committing large amounts of capital to a business could result in loss of *independence*, "since *you need* to change to institutional owners," says Mr David-Weill. The private Lazard partnership structure – with a 50 per cent holding by Pearson, which also owns the Financial Times – has been developed to prevent any such loss occurring.

Third, they should not use many people. Large teams of staff create an overhead which becomes a burden if particular business lines turn down. As it is, Lazard has not had to reduce staff numbers in the current downturn, says Mr David-Weill. "Nobody in the world is without cost pressures," he says. "We try very hard to moderate the trend upwards. Can we cut drastically? At this time in view of our work we can cope."

In spite of this broadly pragmatic approach, however, there is still more than a hint of a global game plan at work in the brain of the 59-year-old Mr David-Weill. That became clear at the end of the 1980s, as he moved to bring the three Lazard houses closer together to take advantage of the increasing volume of cross-border merger and acquisition business. Until then, all three had remained powerful domestic advisory firms, with little co-operation between them. Yet potentially, with its strong US base, Lazard was in a position to do what no European corporate finance had managed before – break into the transatlantic corporate M&A as an adviser in both continents.

Michel David-Weill: Lazard has to "add something"

"I'm one who believes that nothing is vital," says Mr David-Weill. "You can do well in just one market. That being said, it is a clear advantage to have a position in the US."

With particular partners from each of the houses either permanently stationed in – or frequent visitors to – each of the others, cross-border deals handled by the firm have picked up. Rivals in the UK now frequently talk of Lazard as a model when talking about their own ambitions to develop internationally.

Sharing profits between the different parts of the group has not proved a problem, says Mr David-Weill. "It's fairly simple. It's not even a matter of great discussion. The place where the deal is done gets two-thirds, the other house gets one third." Where all three houses are involved, the leading house will get about half the fee, with the others a quarter each, he adds.

The question overhanging Lazard now is whether it has developed fast enough from its domestic bases to meet the challenge of the internationally minded (mainly US) investment banks that have invaded the European M&A market in recent years. Its recent expansion into Germany and Italy has been *slow and* cautious.

This year's tussle for control of Perrier, the French mineral water group, *between the* Agnelli family and BSN, the French food group, displayed both the strengths and the weaknesses of the bank's position as a close adviser to some of the continent's biggest business groupings. Mr David-Weill *is himself close to both* Mr Gianni Agnelli and to Mr Antoine Riboud, chief executive of BSN, and sits on the boards of *each group. Lazard also owns* 2 per cent of Mediobanca, the Italian merchant bank that advises the Agnellis.

Faced with this conflict, Lazard opted to advise BSN. It is the sort of uncomfortable position which merchant bankers dread, *though Mr David-Weill* now tries to smooth over the tensions. "There was a view that we were on very bad *terms with our friends*," he says. It really shows exactly the opposite. We can be very useful in very many ways."

Such conflicts, though, create opportunities for competitors. The challenge for Lazard will to grow into enough markets for such *spats to become* less significant for its business as a whole.

Richard Waters

Too many investment banks are chasing too little business

Tough times for advisers

TIMES ARE tough for the international investment banks which act as advisers in cross-border mergers and acquisitions. There are simply too many banks chasing too little business.

The volume of international M&A business has fallen steadily since the late 1980s, putting pressure on the advisers to search for new business areas, cut their costs, compete more fiercely on fees and – in some cases – take on smaller deals.

With the recession in the UK and the US, fewer companies have the financial clout to launch large aggressive takeovers of the kind seen in the 1980s. "The level of activity generally is still much lower than before the Gulf crisis and the current recession", says KPMG, the accountancy and consulting group which compiles M&A data. The quarterly average value of cross-border transactions in the first half of 1992 was $17.9bn, compared with $29.5bn in 1990 and $32.6bn in 1989.

Not everyone is complaining. Credit Suisse First Boston (CSFB), one of the top-ranking investment banks in the M&A league tables, claims that activity – as measured by the number of transactions and the overall volume – in the first nine months of this year is "substantially higher" than a year ago.

Other houses are not so cheerful. "We are having to fight more aggressively for business because clients are ever more attuned to the possibility of using different advisers, and so they play the investment banks off against each other," says the head of one large UK investment bank.

"Clients are playing the investment banks off against each other"

"Because of the business slowdown in traditional areas such as the US and UK, there are a lot of idle banks trying to get market share," says Mr François von Hurter, executive director at CSFB.

Investment banks have responded to the tougher climate in various ways. The most common has been to concentrate on new business areas where they can act as advisers.

Much of the present cross-border M&A business is focused on Europe as US and European companies are eager to strengthen their operations within the EC in preparation for the single market.

Mr Bill Strong, who heads the European investment banking business at Salomon Brothers in London, says that many investment banks are concentrating on areas of core expertise. "In Europe you will see a continued trend towards bank mergers and insurance mergers," he says, as companies attempt to cut their overhead expenses, achieve economics of scale and sell their products using other companies' distribution systems.

Investment bankers see plenty of scope for advising many of Europe's big companies on the restructuring of their businesses. For example, CSFB was appointed by the Swedish government to advise on the restructuring of two Swedish commercial banks – Nordbanken, which is state-owned, and Gota Bank, which had to fall on government promises to meet all of its obligations. Both of the banks have been hit by heavy credit losses.

In the case of Nordbanken, CSFB is looking at ways of restructuring the bank so that the government can eventually sell it. "With bank restructurings you end up with a sanitised bank which you can then sell," says Mr von Hurter of CSFB.

In addition, privatisations are expected to continue to provide a source of business for the investment banks. One of the important areas is the telecom sector, where governments sometimes want an injection of capital and a partner who can provide technological know-how and management expertise. The telecom companies in Mexico and New Zealand followed this route, and investment bankers expect further deals of this kind. "Often the government is considering selling a minority stake, so there is an element of M&A to it," says Mr Strong.

Much of the privatisation business is coming from eastern Europe. The advisory fees paid in such deals are fairly close to the level seen for western companies, advisers claim, although the deals often take longer to complete.

Mr Strong of Salomon Brothers also expects to see investment banks increasingly being hired to advise governments on the financing of large infrastructure projects such as the construction of airports or rail links, particularly where these are partly owned and managed by companies in the private sector.

While some investment banks privately claim that their rivals may be overstaffed and overdue for staff cutbacks, few will admit to taking such steps themselves. "I think there is going to be a further fall-out in terms of head-counts" says Mr Strong of the investment banking M&A sector as a whole.

Another top banker says: "There are too many banks chasing too little business – the ones who are good at it can find the work while the ones who are not well positioned will have to cut staff levels."

Some banks claim to have upgraded their M&A staff while keeping the overall head-count steady. Others say they have been steadily building up their presence in Europe. Mr Richard Agutter, KPMG's head of M&A, stresses that it is important to get a cultural knowledge of the various countries, given that "Europe is not all one culture". KPMG, which concentrates on advising the "middle market" – or deals of between £10m to £50m – has been expanding its network across Europe over the last four years. CSFB, which also views Europe as a very important source of business, has opened offices in Budapest and Prague.

Competition on fees is tough. "The days of making a big killing ended with the 1980s"

Where the investment banks do sometimes admit to seeing tough competition is on fees. Advisory fees are seldom disclosed in Europe – in contrast to the US where disclosure is required. But advisers admit that the days of making fat fees are over.

"The days of making a big killing ended with the 1980s," says Mr Agutter. In addition, some advisers are having to take on smaller deals than before in order to pick up enough business, although banks cannot charge the same fees for smaller deals.

While investment bankers are hoping that activity will start to pick up in 1993, few believe that there will be a sudden, highly visible, recovery. Price-earnings ratios are generally seen as too high to encourage M&A activity, and it may be some time before corporate profitability picks up enough to tempt the acquisitive.

Sara Webb

The dealing room at S G Warburg (picture by Tony Andrews)

Profile: S G WARBURG

'We think for our clients'

IT IS fair to say that while S G Warburg is universally respected, it is not necessarily liked. The widespread image of the firm as grey and faceless is partly a function of its preferred approach to publicity, which is to avoid personalising it. Professionalism, team spirit and a rejection of the star system characterise Warburgs, combined with continuity, consistency, consensus and discretion about clients' business.

The firm has come a long way since it was founded in 1946, and is arguably Britain's only truly successful wholly integrated international investment bank house. The group employs more than 5,000 people worldwide and derives only 40 per cent of its revenues from domestic UK business. The international bias owes much to the founder's status as a parvenu to the City and the need to look for business elsewhere, particularly to North America.

Broadly speaking, Warburgs takes a holistic approach to servicing clients. In 1991, it announced it had combined its corporate advisory and financing activities in order to market and provide corporate services more effectively to clients worldwide. Corporate advisory and financing teams are based throughout Europe, in the UK, France, Germany, Italy, Spain, Switzerland and Portugal. There is a significant presence in both North America and south-east Asia.

One of the more public results of the firm's integrated approach has been its involvement in privatisation transactions around the world in leading corporate advisory and distribution roles. It has acted for companies or government agencies in more than 20 countries.

This breadth of experience has helped in cross-border transactions, but has also enabled the firm to grow local roots to the point where it is now involved in a large number of purely domestic transactions overseas.

For example, last year it advised on the merger between Spain's two largest private sector electricity utilities, Iberduero and Hidroelectrica Espanola, and on Nationale Nederlanden's merger with NMB Postbank.

More recent important transactions include the privatisation of Sidermex, the Mexican government-controlled steel and mining group sold to a consortium of Mexican and other investors, and the sale of a 60 per cent interest in SyStemix of the US to Switzerland's Sandoz, one of the largest transactions in the biotechnology industry to date.

Warburgs is enjoying a good year in M&A so far. Its role in advising Midland Bank on the merger with Hongkong and Shanghai Bank helped it to a near-clean sweep of the FT Mergers + Acquisitions International league tables at the half-year stage.

Currently it is sole adviser to UK publisher Reed International, a client of more than 20 years' standing, in one of the biggest deals of 1992 so far, the proposed £5bn-plus merger with Dutch publisher Elsevier. For director Rodney Ward, a financing specialist, the involvement in this very 1990s agreed strategy-driven deal illustrates several of the firm's strengths. Client relationships, flexibility, country and industry knowledge all came to bear as well as the quality of the advisory team in coming up with a creative structure.

At Warburgs, industry knowledge comes from having a large research capability. The particular areas where it feels expansion or consolidation are likely include financial services, telecommunications, publishing, property, retailing, chemicals, pharmaceuticals, motors, oil and gas and engineering.

It is sole adviser to Reed International in one of the year's biggest deals, the proposed £5bn-plus merger with Dutch publisher Elsevier

Mr Ward says: "Networking through the analysts you can get a view not only of what's happening in any one industry in the UK but right across the world and it gives you a sense, a view and a vision that not many people can match. More and more, companies are looking to their advisers to provide them with more than just pure boiler plate advice but to be actively thinking on their behalf. We aim to be in the forefront of the provision of those ideas."

Warburgs is not immune to its recession, as its recent exit from market making for a number of smaller companies illustrated. "We are bound up with the fate of our clients and the nature and volume of the work changes," says Mr Mark Nicholls, director with day-to-day responsibility for corporate advice in the UK.

Mr Ward argues that the firm's spread does give some insulation, with Latin America proving more buoyant than elsewhere, but there have been deferrals in the UK and Europe. The privatisation of Procordia, in which Warburgs is advising the Swedish government, now looks unlikely to take place before 1993, thanks to market uncertainty. Meanwhile, work is being sought in other areas; a lot of people do need financial restructuring advice.

Brian Bollen

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Oct 16	Oct 15	Oct 14	Oct 13	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3174.41	3174.68	3195.48	3201.42	3413.21 (1/6)	3136.58 (9/10)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	102.27	102.50	102.47	102.46	103.20 (18/9)	98.41 (20/3)	103.20 (18/9/92)	54.99 (1/10/81)
Transport	1283.21	1260.65	1252.59	1251.18	1467.68 (20/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	218.14	217.70	216.95	216.83	225.59 (3/2)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Indl. Day's High 3203.85 (3207.37) Low 3123.89 (3179.81) (Theoretical)
Day's High 3180.08 (3198.16) Low 3142.80 (3157.38) (Actual)

STANDARD AND POOR'S

	Oct 16	Oct 15	Oct 14	Oct 13	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	411.73	409.60	409.37	409.30	425.27 (14/9)	394.50 (8/4)	425.27 (14/9/92)	4.40 (1/6/32)
Industrials	481.74	479.32	479.26	479.05	503.30 (14/9)	470.91 (8/4)	503.30 (14/9/92)	3.62 (21/6/32)
Financial	35.44	35.66	35.61	35.55	[illegible]	[illegible]	[illegible]	[illegible]
NYSE Composite	226.44	225.51	225.39	225.31	233.73	217.92	[illegible]	[illegible]
Amex Mkt. Value	367.33	365.63	366.17	366.83	[illegible]	[illegible]	[illegible]	[illegible]
NASDAQ Composite	582.61	578.64	576.22	576.44	[illegible]	[illegible]	[illegible]	[illegible]

	Oct 9	Oct 2	Sep 25	year ago (approx.)
Dow Industrial Div. Yield	3.31	3.24	3.19	3.10

	Oct 14	Oct 7	Sep 30	year ago (approx.)
S & P Industrial div. yield	2.76	2.80	2.70	2.69
S & P Indl. P/E ratio	26.77	26.45	27.40	21.44

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Philip Morris	3,826,500	77¼	- 2½
Gen Motors H	8,460,800	18	- ⅛
West. Elec	8,201,000	11⅞	- 1⅛
IBM	7,648,100	70⅝	- 2¼
Merck	3,853,900	42½	- 1⅞
Gen Motors	3,674,200	29½	- 1
Telefonos	3,038,400	47⅛	+ 1⅞
RJR Nabisco	2,723,900	8¼	- ⅛
Coca Cola	2,210,700	40⅛	+ 1¼
Chrysler	2,110,900	24¼	+ ½

TRADING ACTIVITY

† Volume (Millions)	Oct 16	Oct 15	Oct 14
New York SE	234.420	206.990	175.440
Amex	11.637	11.095	10.223
NASDAQ	(u)	173.779	175.695
NYSE			
Issues Traded	2,336	2,339	2,338
Rises	946	881	804
Falls	809	817	882
Unchanged	581	641	562
New Highs	48	46	31
New Lows	52	43	48

CANADA

TORONTO	Oct 16	Oct 15	Oct 14	Oct 13	1992 HIGH	1992 LOW
Metals & Minerals	2641.53	2603.82	2608.64	2643.36	3238.87 (16/1)	2603.82 (15/10)
Composite	3207.70	3196.14	3195.40	3214.90	3666.00 (16/1)	3195.40 (14/10)
MONTREAL Portfolio	1668.88	1663.16	1663.16	1678.78	1937.59 (16/1)	1663.16 (14/10)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ◆ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ◆ Corrected figure.

	Oct 16	Oct 15	Oct 14	Oct 13
MALAYSIA KLSE Composite (4/4/86)	608.05	607.38	606.56	[illegible]
NETHERLANDS CBS Tst Rtn.Gen.(End 1983)	285.5	285.3	286.6	[illegible]
CBS All Shr (End 1983)	192.5	192.4	193.2	[illegible]
NORWAY Oslo SE (Ind) (2/1/83)	585.44	579.89	592.42	[illegible]
PHILIPPINES Manila Comp (2/1/85)	1371.11	1368.34	1386.81	[illegible]
SINGAPORE SES All-Singapore (2/4/75)	354.45	355.14	355.12	[illegible]
SOUTH AFRICA JSE Gold (28/9/78)	784.04	782.0	814.0	[illegible]
JSE Industrial (28/9/78)	3939.04	3946.0	4005.0	[illegible]
SOUTH KOREA** Korea Comp Ex. (4/1/80)	518.91	521.85	524.96	[illegible]
SPAIN Madrid SE (30/12/85)	193.96	191.18	191.65	[illegible]
SWEDEN Affarsvariden Gen. (1/2/37)	661.60	662.30	674.9	[illegible]
SWITZERLAND Swiss Bank Ind. (31/12/58)	839.3	837.3	843.4	[illegible]
SBC General (1/4/87)	634.7	633.4	636.8	[illegible]
TAIWAN** Weighted Price (30/6/66)	3707.18	3729.02	3633.22	[illegible]
THAILAND Bangok SET (30/4/75)	871.58	871.66	879.65	[illegible]
WORLD M.S. Capital Intl.(1/1/70) ($)	489.3	492.5	491.2	[illegible]
Euro Top-100 (26/6/90)	806.33	802.61	810.05	[illegible]

**Saturday October 10: Taiwan Weighted Price: (c). Korea Comp [illegible]
‡ Subject to official recalculation.
Base values of all indices are 100 except: Austria Traded, BEL20, HEX [illegible] Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264 [illegible] (c) Closed. (u) Unavailable

TOKYO – Most Active Stocks
Friday October 16 1992

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The minimum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. *The symbols are as follows:* (▼) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♦) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Sharp (Albert E.) & Co (1000)F						
Admin 5 Rayleigh Rd Hutton, Brentwood Essex						
Enquiries: 0277 227300 Dealing 0277 261010						
Intl Bond & Conv	5	113 80	114 00	120 00	6 40	[illegible]
Pooled Pension ‡	3¼	130 4	135 1	139 8	-	[illegible]
Smaller Cos	5	49 86	51 57	54 28	2 76	[illegible]
UK General	5	104 00	105 50	111 00	2 75	-
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard London Bridge SE1 071-407 5966						
Income	5	325 21	325 21	344 72	6 01	[illegible]
Global Inc	5	46 47	46 47	49 26	4 97	[illegible]
Brit Leaders	5	280 45	280 45	297 28	3 43	[illegible]
Intl Leaders	5	148 20	148 20	157 09	2 09	[illegible]
[illegible]	3¼	45 29	46 16	47 96	4 46	[illegible]
[illegible]	3¼	45 49	46 16	47 96	4 46	-
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224 Beckenham BR3 4TF 081-663 3003						
European Trust	6	43 72	43 81	46 60	2 13	[illegible]
Far Eastern Tst	6	50 18	50 28	53 48	0 93	-
Smaller Cos	5	104 9	109 5	116 4	3 10	[illegible]
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St London W1A 3AS 071-637 5377						
S & W American ‡	5	222 7	223 0	235 9	0 99	[illegible]
S & W Capital	5	98 39	98 39	105 4	2 14	[illegible]
S & W Cash ‡	0	100 59	100 59	100 59	9 28	[illegible]
S & W European	5	98 17	98 57	104 3	1 58	[illegible]
S & W Far Eastern	5	98 20	98 99	104 7	0 14	[illegible]
S & W Growth	5	106 3	107 5	113 7	1 79	[illegible]
S & W Income	5	90 81	92 17	97 53	6 18	[illegible]
S & W Enigmas	5	104 0	104 0	111 6	1 95	[illegible]
S & W Smllr Secs	5	229 9	235 3	248 9	1 28	[illegible]
S & W Thorogood	5	120 0	120 0	128 8	1 92	[illegible]
Societe Generale Touche Remnant (1600)F						
Mermaid Hse 2 Puddle Dock EC4V 3AT 071-248 1250						
4 Hourly Pricing – 12 Noon Historic						
American Gwth	5¼	61 22	61 22	65 47	0	[illegible]
Eur Sp Sits Acc	5¼	38 73	38 73	41 21	0	[illegible]
Eur Sp Sits Inc	5¼	36 58	36 58	38 92	0	[illegible]
Far East Opps Inc	5¼	23 42	23 42	25 34	0	[illegible]

OTHER UK UNIT TRUSTS

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
Midland Life Limited				
Norwich Hse, Commercial Rd, Southampton 0703 229929				
Adventurous Fd	56 4	59 4	-	46097
Balanced Fd	66 3	69 8	-	46098
Defensive Fd	68 7	72 4	-	46099
Secure Fd	68 1	71 7	-	46100
UK Equity Fd	72 9	76 8	-	46101
International Fd	57 3	60 4	-	46102
Money Market Fd	69 1	72 8	-	46103
Fixed Interest Fd	66 8	70 4	-	46104
[illegible]	111 0	116 9	-	44777

FT MANAGED FUNDS SERVICE

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Prolific Life & Pensions Ltd
Stramongate, Kendal, Cumbria LA9 4UB 0539 733733
Managed Fund for Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Grth Mngd	573.6	610.3	-	43315
Adventurous Mngd	134.1	142.7	-	46402
Cautious Mngd	112.2	119.4	-	46403
Cash Fd	311.4	328.2	-	43316
Property Fund	216.8	230.7	-	43317
Equity Fund	643.1	684.2	-	43318
Fxd Int. Fund	368.8	388.7	-	43319
International	290.2	308.8	-	43320
High Income	503.8	536.0	-	43321
Far East	390.3	415.3	-	43322
North American	348.1	370.4	-	43323
Special Sits	460.6	490.0	-	43324
Technology	344.9	367.0	-	43325
Extra Inc Fd	272.3	289.7	-	43326
Convertible & Gilt Fd	130.6	139.0	-	43327
American Income	151.0	160.7	-	43328
Gilt Fund 20	417.3	444.0	-	43329
European Fund	106.0	112.8	-	43330
Pref & Fixed Int	100.1	106.5	-	46332
UK Blue Chip	104.6	110.3	-	47048
Recovery Fund	94.9	100.0	-	47056
Equity Income Dist	91.5	97.4	5.26	47816
Managed Dist	88.6	94.3	5.59	47817
High Yield Dist	95.2	100.4	7.90	44422
Pension Funds				
Balncd Grth Mgd Pens Acc	663.2	687.6	-	43931
Adventurous Mgd Pens Acc	135.6	142.8	-	46404

Reliance Mutual
Reliance House, Tunbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	Yield Gross	City-line
Deposit Acc Fd	165.6	174.3	-	43575
Equity Acc Fd	356.1	374.9	-	43576
Managed Acc Fd	314.3	330.8	-	43577
Prop Fd (1st Issue)	-	570.1	-	43578
Prop Acc Fd (2nd Iss)	116.8	122.9	-	43579
Unit Trust Acc Fd	134.5	141.6	-	43580
RL Pension Funds				
Deposit Acc	239.3	251.9	-	43581
Equity Acc	256.1	269.5	-	43582
Fixed Int Acc	234.6	247.0	-	43583
Gilt Indx Lnk Acc	177.4	186.7	-	43584
Managed Acc	338.4	356.3	-	43585

J Rothschild Assurance PLC
J Rothschild House, Dollar Street, Cirencester
Telephone 0285 640302 Helpline 041 307 6500

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
JRA/M&G Managed	100.7	106.0	-	46639
JRA/Scottish Amicable Mngd	95.40	100.5	-	46996
JRA/St James Place Mngd	103.8	109.3	-	47133
Deposit	98.70	103.9	-	46281
Far East	103.6	109.1	-	46304
Gilts	100.8	106.2	-	46397
Greater European	104.0	109.5	-	46488
North American	107.3	113.0	-	46859

Scottish Mutual Assurance plc

Sun Alliance Group—Contd.

Albany International Assurance Ltd

Target International Group

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES AND MONEY MARKETS

Sterling on trial

ALL EYES will be on sterling this morning to see whether the resilience displayed on Friday, in the face of a one point cut in base rates, can be sustained, *writes Emma Tucker.*

UK clearing bank base lending rate 8 per cent from October 16, 1992

Most are expecting the currency to fall further over the week as the market takes stock of the poor economic outlook in Britain together with base rates now 1½ points below Germany's Lombard rate.

"The cut signalled a recognition by the government of the seriousness of the economic situation, but we still need further cuts," said Mr David Coleman, treasury adviser at Canadian Imperial Bank of Commerce.

The market is fairly convinced that more reductions are ahead and the sterling futures market is discounting base rates of 7 per cent by the end of year. However, it is still not clear how much importance the government is attaching to the exchange rate.

Many are forecasting another cut around the time of the Autumn statement, but Mr Julian Jessop, international economist at Midland Montagu thinks rates have fallen as far as they are going to this year.

"Unless the government can surprise the market by seriously undercutting spending plans in the Autumn Statement, I doubt they will be able to cut rates again with a weak exchange rate," he said.

The dollar, which shrugged off Friday's poor trade figures, may come under further pressure this week as the presidential election campaign enters its last stretch. A Governor Clinton victory has mixed implications for the dollar.

Higher government spending could upset the dollar, but more robust economic growth might mean the Federal Reserve delays another rate cut.

STERLING INDEX

	Oct. 16	Previous
8.30 am	81.3	81.9
9.00 am	81.2	81.8
10.00 am	81.4	81.8
11.00 am	81.5	81.8
Noon	81.3	81.9
1.00 pm	80.7	81.9
2.00 pm	80.6	81.5
3.00 pm	80.8	81.6
4.00 pm	80.7	81.8

OTHER CURRENCIES

Oct 16	£	$
Argentina	1.6540 - 1.6570	0.9900 - 0.9910
Australia	2.3160 - 2.3180	1.3870 - 1.3880
Brazil	11885.3 - 11981.5	7117.90 - 7118.10
Finland	7.7375 - 7.8135	4.6550 - 4.6650
Greece	316.150 - 322.50	187.970 - 191.730
Hong Kong	12.8600 - 12.8805	7.7295 - 7.7305
Iran	2427.00*	1435.00*
Korea(Sth)	1312.75 - 1333.90	779.70 - 785.90
Kuwait	0.49100 - 0.49200	0.29400 - 0.29500
Luxembourg	50.30 - 50.40	30.35 - 30.45
Malaysia	4.1560 - 4.1695	2.5010 - 2.5030
Mexico	5013.10 - 5024.30	3132.50 - 3134.50
N.Zealand	3.0705 - 3.0745	1.8430 - 1.8455
Saudi Ar	6.2620 - 6.3765	3.7495 - 3.7505
Singapore	2.6665 - 2.6750	1.6030 - 1.6040
S.Af (Cm)	4.7605 - 4.7750	2.8635 - 2.8655
S.Af (Fn)	6.9995 - 7.0445	4.2015 - 4.2285
Taiwan	42.00 - 42.15	25.20 - 25.30
U.A.E.	6.1315 - 6.2450	3.6715 - 3.6735

*Floating rate. Iran Official rate £107.05 $63.95

Morgan Guaranty changes: average 1980-1982 = 100. Bank of England Index (Base Average 1985 = 100). **Rates are for Oct 15

CURRENCY RATES

Oct 16	Bank § rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.852042	0.806417
U.S Dollar	3.00	1.44762	1.34712
Canadian $	7.93	1.80880	1.68040
Austrian Sch	8.25	14.8005	13.7932
Belgian Franc	8.00	43.3381	40.3799
Danish Krone	9.50	8.13201	7.57351
D-Mark	8.25	2.10108	1.96073
Dutch Guilder	8.00	2.37265	2.20766
French Franc	10¼	7.16065	6.65949
Italian Lira	15.00	N/A	1724.46
Japanese Yen	3.25	174.293	161.277
Norway Krone	-	8.59597	8.00863
Spanish Peseta	-	150.691	140.369
Swedish Krona	50.0	7.94164	7.40377
Swiss Franc	6.00	1.87756	1.75597
Greek Drach	19	N/A	255.091
Irish Punt	-	N/A	0.747238

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Oct.15

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Dec	103-22	104-01	103-04	104-02
Mar	102-13	102-23	101-28	102-26
Jun	101-06	101-07	100-22	101-18
Sep	100-01	100-01	99-21	100-13
Dec	99-00	99-07	98-18	99-11
Mar	98-02	98-02	97-20	98-11
Jun	97-06	97-06	96-23	97-14
Sep	96-13	-	-	96-20
Dec	95-23	-	-	95-29

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Close	High	Low	Prev.
Dec	0.8367	0.8372	0.8270	0.8309
Mar	0.8364	0.8372	0.8288	0.8305
Jun	0.8366	-	-	0.8307

BASE LENDING RATES

	%		%		%
Adam & Company	8	Credit Lyonnais	9	McDonnell Douglas Bnk	9
Allied Trust Bank	9	Cyprus Popular Bk	9	Midland Bank	8
AIB Bank	8	Duncan Lawrie	8	Mount Banking	9
● Henry Ansbacher	8	Equatorial Bank plc	9	NatWestminster	8
B & C Merchant Bank	13	Exeter Bank Limited	9.5	Northern Bank Ltd	9
Bank of Baroda	8	Financial & Gen. Bank	9	Nykredit Mortgage Bank	9.5
Banco Bilbao Vizcaya	8	● Robert Fleming & Co.	8	Provincial Bank PLC	14
Bank of Cyprus	8	Robert Fraser & Ptnrs.	8.5	● Rea Brothers	8
Bank of Ireland	9	Girobank	8	Roxburghe Bank Ltd.	10
Bank of India	9	● Guinness Mahon	9	Royal Bk of Scotland	9
Bank of Scotland	8	Habib Bank AG Zurich	8	● Smith & Williamson Secs.	9
Banque Belge Ltd	9	● Hambros Bank	9	Standard Chartered	9
Barclays Bank	8	Hampshire Trust Plc	13.5	TSB	8
Brit. Bk of Mid East	8	Heritable & Gen Inv Bnk.	9	Unibank plc	8
● Brown Shipley	9	● Hill Samuel	9	● United Bk of Kuwait	9
CL Bank Nederland	8	C. Hoare & Co.	9	Unity Trust Bank Plc	9
Citibank NA	8	Hongkong & Shanghai	8	Western Trust	9
City Merchants Bank	9	Julian Hodge Bank	9	Whiteaway Laidlaw	8
Clydesdale Bank	8	● Leopold Joseph & Sons	8	Yorkshire Bank	8
Co-operative Bank	8	Lloyds Bank	8		

MONEY MARKET FUNDS

AMERICANS

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

Authorised by the Inland Revenue

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MEDIA - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
v Not subject to ACT.
x Dividend includes a special payment: Cover does not apply to special payment.
E Auction basis
F Dividend based on prospectus or other official estimates for 1990-91.
G Assumed dividend after pending scrip and/ or rights issue.
H Dividend based on prospectus or other official estimates for 1991.
K Dividend based on prospectus or other official estimates for 1992-93
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1991-92.
N Dividend based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991.
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close October 16

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11	AAR Corp	0.48	4.2	18	102	11½	11¼	11⅜	
26	18	A L Labs A	0.18	0.8	82	381	23¼	22⅝	23⅛	+⅛
64¼	52⅝	AMP Inc	1.52	2.4	24	2254	62½	61⅜	62½	+1¼
60¼	54⅛	AMR				216858	59⅞	57½	59½	+1¼
2⅜	1⅛	ARX			20	125	1⅞	1¼	1⅞	
53½	33¼	ASA	2.90	5.9	22	315	34⅝	33¼	34⅛	+⅛
34¼	26⅛	Abbott Lab	0.60	2.0	20	2218	29½	28⅞	29½	
13⅞	11⅛	Abitibi Pr	0.42	3.7	6	27	11⅜	11¼	11¼	−⅛
11⅝	10⅛	ACM Gvt In	0.96	8.5		115	11¼	11⅛	11¼	
10⅛	9⅛	ACM GvOpp	0.79	8.2		77	9¾	9½	9⅝	
9¼	8½	ACM Gvt Sp	0.79	8.3		294	9⅝	9½	9½	−⅛
11⅜	10⅛	ACM Gvt Se	0.96	8.6		125	11⅛	11⅛	11⅛	−⅛
10⅝	8⅝	ACM Man	1.08	10.8		290	10⅛	10	10	
12⅞	9⅞	ACM Managd	0.99	9.9		45	10	d9⅞	10	
11¼	4¼	Acme Cleve	0.40	6.2	12	32	6½	6⅜	6½	
6¼	3¼	Acme Elect			30	9	4	3⅞	4	
33¼	14½	Acuson			10	229	16½	16¼	16¼	−⅛
20	18⅛	Adams Expr	0.48	2.5	1	55	19½	19⅜	19½	
49½	29½	Ad Micro	3.00	7.9		119	38⅛	37⅝	38⅛	+⅛
21½	7½	Ad Micro P	3.00	23.1		46738	13	12½	13	+⅛
9⅛	4⅞	Advost Grp	0.16	2.7	73	14	6	5⅞	5⅞	−¼
42¼	33	Aegon ADR	1.68	4.0	7	240	u42¼	42	42⅛	

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
12⅝	6⅞	Worldcorp			42	81	6¾	6¾	6¾	-⅛
37⅞	22	Wrigley	0.40	1.2	28	672	34	32⅞	34	+1
18	12⅞	Wyle Labor	0.28	1.6	15	757	17¾	17¼	17¾	+¼
23⅝	16⅛	Wynns Int	0.60	2.8	7	53	21⅝	21¼	21⅝	+⅛
82¼	66½	Xerox	3.00	3.8	181338	78⅝	77¾	78⅜	+¾
55	50½	Xerox4.125				z100	53½	53½	53½	
34¼	24⅞	Xtra 1.94	1.94	6.1		15	31⅞	31⅞	31⅞	
47½	28½	Xtra Corp	0.80	1.8	13	5	44½	44¼	44¼	-¼
30⅝	25¼	Yankee Egy	1.66	5.5	14	9	30⅛	30	30	-⅛
1½	½	Zapata			29	525	1⅛	1	1⅛	+⅛
11⅛	6½	ZenithElec			3	232	5¾	5⅝	5¾	
19½	14½	Zenith Nat	1.00	6.0	8	z100	16⅝	16⅝	16⅝	
7½	6	Zenix Inc x	0.83	11.9		173	7¼	7	7	-¼
13¾	10	Zero Corp	0.40	3.5	18	47	11⅝	11¼	11⅜	-⅛
38	27¾	Zurn Ind x	0.88	2.8	35	169	31⅞	31¼	31⅞	+½
14⅛	12	Zweig Fund	1.12	9.1		136	12½	12¼	12⅜	
11	9½	Zweig Totl	0.86	8.7		1342	10⅛	9⅞	9⅞	-¼

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4 pm close October 16

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pet Hl&P	1.14	13	20	16½	16⅝	16⅛	-⅛
Phil LD	0.26	16	840	38⅛	37½	37⅞	+½

NASDAQ NATIONAL MARKET

4 pm close October 16

MONDAY INTERVIEW

Conjuror in the cabinet

John MacGregor, UK transport secretary, speaks to **Richard Tomkins**

'There is no doubt we need improved roads'

Britain's transport secretaries rarely stick around for long. You only have to look at the record: eight have already gone since the Conservatives took office in 1979, moving on to higher office, oblivion or the House of Lords.

Even so, a more-than-usually noticeable air of impermanence surrounds the ninth incumbent, John MacGregor. After barely six months at the Department of Transport, this one-time conjuror, banker and chief secretary to the Treasury has suddenly, and however improbably, emerged as the current favourite for the chancellor's job should the beleaguered Norman Lamont go.

Of course, Mr MacGregor is not so lacking in tact as to say he actually wants to be chancellor. Mr Lamont is doing very well indeed in the post, he says, and he himself has quite enough to be getting on with at the transport department even to think about moving just yet.

His words, however, have a hollow ring to them. A rather stronger impression is that Mr MacGregor is dying to get his hands on the job. During the course of an hour-long interview, he emphasises his deeply-rooted interest in economics and enthusiastically sets out his stall on Europe. Somehow, Transport just doesn't seem to arouse the same fervour.

So who is this would-be chancellor? One of the less charismatic figures in the cabinet, Mr MacGregor, 55, suffers from a low public profile. His reputation, too, is that of a consolidator rather than an innovator – witness his slowing down the pace of educational reform when education secretary. On the other hand, he is bright, tough, modest and well-liked, his pragmatism can be seen as a virtue, and he is one of the Cabinet's most experienced politicians.

A doctor's son, Mr MacGregor was born in Glasgow and brought up in Shotts, a Lanarkshire mining village. He was later schooled in Edinburgh, then went to St Andrews University with the intention of becoming a Scottish advocate. They were hard times: in his university days, he recalls, he only scraped by thanks to scholarships, his father, and his income from conjuring.

Conjuring?

"Yes. I can't remember how it started, but the very first public performance I gave was aged 11 in the miners' welfare hall in Shotts. Then I did quite a lot at school, and very particularly at university, where I had the professional name of Del Genie." His speciality was, and remains, mind-reading. Even today Mr MacGregor is a member of the Magic Circle, though his ministerial duties leave him little time to practise his craft.

But he has lost none of his old skills. Challenged to give an impromptu performance, he fixes his interviewer with a penetrating gaze and says: "I think you are probably thinking this is a very strange way to conduct an interview about British Rail." Incredibly, he is correct.

Conjuring apart, Mr MacGregor's university days were notable for stimulating his interest in politics and economics. Quite by chance, he says, he took up political economy as a secondary subject to law, and became hooked. He joined the students' Conservative association and later became chairman of the Federation of University Conservative Unionist Associations.

That marked him out for politics. Completing his law degree at King's College, London, he became special adviser to the then prime minister, Alec Douglas-Home, in 1963. Then, with the Conservatives in opposition, he headed the private office of party leader Edward Heath.

MacGregor has held five cabinet posts since the Conservatives came to power in 1979. The reason for the speculation over his next job is that, in a party riven by dissent, he looks less divisive on the critical issues of the economy and Europe than his cabinet rivals.

Where, then, does Mr MacGregor see himself on the political spectrum? His two biggest preoccupations, he says, since his university days, have been Europe and the economy.

On Europe, he proclaims himself a passionate supporter of Britain's membership of the European Community. This partly reflects his belief in the Community's original role as a means of securing peace; but beyond that, he says, Britain's population of 55m is simply not a large enough market to allow the country's industry and commerce to thrive.

At the same time, however, Mr MacGregor makes the necessary nod to the Euro-sceptics. "I feel equally strongly nowadays that the EC has too often got too far involved in areas which have nothing to do with the development of the Community, and therefore I have been one of the strongest advocates of subsidiarity all the way through."

He regrets Britain's withdrawal from the ERM and believes the country should rejoin when the conditions are right – though that, he says, is unlikely to be soon. But he is cautious over economic and monetary union. The conditions for entry must be acceptable, he says, "and I have considerable doubts as to whether we will see Emu as a practical matter this decade, because those conditions are just not going to apply."

On economic matters generally, he says he supports "everything we did" during the Thatcher years. If that sits oddly with his former position as Mr Heath's adviser, he says the reason is that Mr Heath had broadly the same policies as those that came to be known as Thatcherism till he shifted ground in 1972.

"I am a very strong believer in low direct taxation and encouraging people with incentives – particularly to save, because I am very pro wider ownership. I am also very strongly in favour of privatising, very strongly for private enterprise, very strongly for letting the markets work, very strongly for small businesses. I think a lot of this comes from my Scottish Presbyterian background. I have always been very strongly in favour of giving people the opportunity to be independent."

Quizzed on his political ambitions, he re-emphasises his strong interest in economic policy, then reminisces about the years he spent on the opposition finance team with the likes of Nigel Lawson, Cecil Parkinson, Norman Lamont and Nicholas Ridley. It is almost as though he is trying to say something; but suddenly, he says his one regret is that he would have liked to have stayed longer as education secretary. As it was, he was unable to see his policies to fruition. "I don't want that to happen in transport – I have only been here for a very short time and there are a lot of exciting things going on."

Ah yes, transport. We have just turned to the subject when Mr MacGregor cuts in. He has forgotten to mention the 11 years he spent at Hill Samuel, the merchant bank – latterly as a director. "I found that immensely interesting, and that experience of business has lived with me in politics all the way through, and I do actually think it's been very significant to me in my career."

Firmly back on transport, Mr MacGregor's views seem to be best summed up in three words: roads, roads, roads.

Ever the pragmatist, Mr MacGregor acknowledges that it would be nice to see more traffic switch from road to rail, but says it is just not practical. Some 90 per cent of all traffic goes by road, and as long as people keep buying more cars and using them, they are going to need more road space.

"I do wish to do what one can for public transport, and we have done quite a lot, but there is no doubt that we have a need for improved roads. And the demand for by-passes is very large. I sometimes think that the more extreme environmental lobbies don't recognise just how strong the pressure is from the public for by-passes. I have seen the benefits of by-passes in my own constituency – they are quite enormous."

Road users may not have things all their own way. Mr MacGregor accepts that the day may come when charging for road use may become necessary to ease congestion in urban areas. But that is a long way off: and everything else he has said tends to confirm the suspicion that, faced with the need for cuts in the current public spending round, he would not resist the axeing of London's Jubilee Line extension if the result were to leave his roads programme intact. If only he were chancellor, the decision would be up to him.

PERSONAL FILE

1937 Born 14 February. Educated Merchiston Castle School, Edinburgh; St Andrews University, Edinburgh (MA 1st cl Hons); King's College, London (LLB).
1974 Elected MP, South Norfolk February.
1981-83 Minister for small businesses, Dept of Industry.
1983-85 Minister of state, Ministry of Agriculture.
1985-87 Chief secretary to the Treasury.
1987-89 Minister of agriculture.
1989-90 Education secretary.
1990-92 Leader of the House.
1992- Transport secretary.

The fiscal dilemma facing Clinton

MICHAEL PROWSE on America

Financial markets were awash with speculation last week that a newly elected President Bill Clinton would order an immediate fiscal stimulus next year to kick-start a stagnant or declining economy. Campaigning in Virginia, Mr Clinton reacted cautiously. He said he would review the need for tax cuts or spending increases, but had not yet made any specific decisions. "I do think there are some ways to accelerate economic activity ... like accelerating the highway programme. There are ways to do that that wouldn't necessarily increase the deficit," he said.

The speculation about a fiscal boost next year reflects growing anxiety that the US recovery is again losing momentum, despite cuts in interest rates to the lowest levels in a generation. Many American economists believe a negative, recession psychology is so deeply entrenched that a direct injection of purchasing power through higher short-term government borrowing is now the only way to revive the economy. Signs that Europe and Japan are either in or on the brink of recession have heightened fears that too much is being expected of monetary policy. Speaking in Tokyo, Mr Alan Greenspan, the Federal Reserve chairman, inadvertently fuelled such fears by hinting that the world could be facing the most intractable downturn in 50 years.

The US outlook has undoubtedly worsened since the summer, which is one reason why President George Bush appears so listless in debates; as the depressing figures roll in, his economic record has become all but impossible to defend. The day after Mr Bush cited exports as a bright spot, official figures showed the trade deficit surging in August to an astonishing $9bn (£5.29bn). This mostly reflected a slump in overseas demand for US goods – a worrying sign that the global slowdown is now inflicting acute pain on US manufacturers, who export up to a quarter of their output.

At home, industrial production fell in September for the third month in four, while business inventories rose sharply in the third quarter, suggesting further output cuts are unavoidable. Car sales, which had strengthened a bit at the end of September, fell again early this month. Retail sales were flat in real terms last month, despite an artificial stimulus as households in Florida and Louisiana replaced goods destroyed by Hurricane Andrew. And consumer confidence – a guide to future spending trends – fell again in early October, according to preliminary results from the University of Michigan survey.

The figures point to another dip like that in the final quarter of last year, when growth slumped to an annual rate of only 0.6 per cent. The response last year included a surprise 1 percentage point cut in the discount rate and a fiscal stimulus. The extension of unemployment benefits and reduction in tax withholding ordered by the White House in January gave consumption a significant boost early this year. And the economy perked up temporarily, growing at an annual rate of almost 3 per cent in the first quarter.

Is another, larger fiscal stimulus now needed despite the large structural budget deficit? Mr Paul Krugman, an MIT professor and informal adviser to the Clinton campaign, favours a stimulus of $50bn to $60bn (about 1 percent of GDP) if the economy is still stagnant in January. Along with many US academics, he sees no conflict between higher borrowing today and longer-term action to raise the national savings rate by reducing the budget deficit.

Some close advisers to Mr Clinton, however, are more cautious. The nature of this business cycle, says Mr Robert Shapiro, an economist at the Progressive Policy Institute in Washington, raises "grave doubts" about the efficacy of a fiscal stimulus.

I am inclined to share Mr Shapiro's scepticism. After a decade of big deficits, it is hard to believe that more borrowing can help an economy already saddled with far too much debt. Why should financial markets believe that a Clinton administration will ultimately reduce the budget deficit if its very first action is to raise borrowing significantly? The fact that the Bush fiscal stimulus earlier this year had only an ephemeral impact on growth also points to the limitations of fiscal action in the current climate.

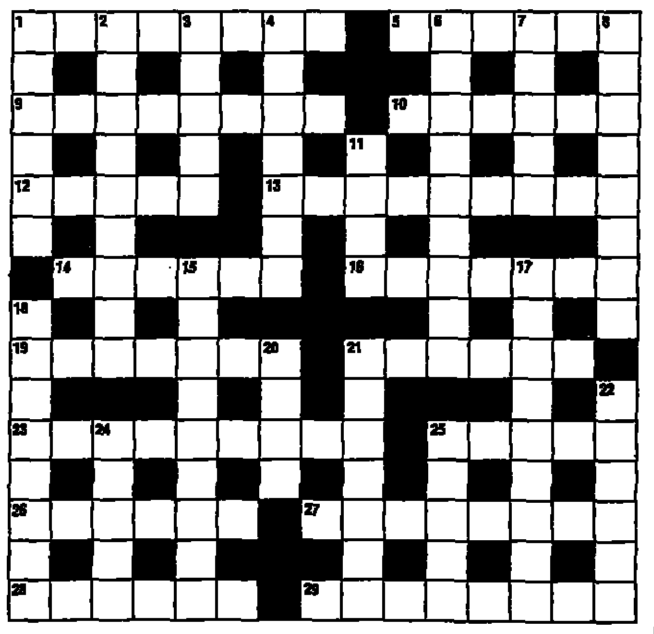
US companies have reduced costs and greatly increased their efficiency. With low short-term interest rates and a competitive dollar, they ought to be poised for a strong recovery. The inhibiting factors are a pervasive lack of confidence at home and growing weakness of overseas markets.

The crucial judgment for the incoming president is how best to revive business confidence. If confidence returns, everything else will come right. If, as some fear, the world is really on the edge of a 1930s style slump, all governments must stand ready to borrow to sustain economic activity. On any other economic scenario, a credible plan to reduce US federal borrowing, starting next year rather than in 1995 or 1996, would seem a better bet. Lower federal borrowing would allow long bond yields to fall sharply, sparking a strong investment-led recovery.

In the absence of a sudden revival of the economy, the new president will face a tough decision. Mr Clinton, the front-runner, is showing commendable caution in refusing to make rash commitments.

CROSSWORD

No.7,980 Set by DANTE



ACROSS

1 Offhand royalist (8)
5 He won't buy the same article twice (6)
9 I'd set about ally so false (8)
10 A girl graduate about to burst into tears (6)
12 Observes appearances (5)
13 Border poet's whiskers (9)
14 Ecclesiastical vestments may hide them (6)
16 Casual footwear for bakers? (7)
19 Carriage capsized at road crossing (7)
21 Holy commands (6)
23 Used for getting in the drink – after opening time (9)
25 An embrace for Lady Grey (5)
26 A tradesman has trouble occupying a high position (6)
27 Banter becomes hurtful in time (8)
28 He's not bent but on the level (6)
29 Back one aiming to retain his title (8)

DOWN

1 Hold in close affection (6)
2 What he sees is immaterial (9)
3 Rings to fix a reel up (5)
4 Refreshed as sleep passes away (7)
6 River authority as a sporting target (9)
7 A voice of course (5)
8 Have another think about seas breaking over ship (8)
11 I'd look up to one who's worshipped (4)
15 Wicked, embraced Virginia, bubbly required (9)
17 How rain falls to form hard water (9)
18 Cricket side and ground not in tune (3-5)
20 Playboy with nothing to feel sorry about (4)
21 Ring through at one point for work (7)
22 Win, possibly earned (6)
24 Put a curb round gelding's head and get control (5)
25 Quick breathing (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 31.

Manifesto of despair

IAN DAVIDSON on Europe

To judge by the coverage of the British newspapers over the weekend, Friday's European summit in Birmingham has already been consigned to the category of a non-event. Conceived last month as an international public-relations exercise, to save Mr Major's face from the domestic consequences of Black Wednesday, it was engulfed before it began by the new domestic crisis caused by the British government's decision to close 31 coal mines.

Europe's leaders had answered the call to Birmingham, in the hope that they could help Mr Major and save the Maastricht treaty. By the time they arrived, the British government's self-inflicted coal crisis seemed to be rendering their efforts inadequate, irrelevant and derisory.

Unfortunately, the summit was much worse than a non-event: it looked and sounded as if the Community was intent on committing collective suicide. The communiqué was doubtless intended to inspire confidence in the common leadership of Europe's governments, but it sounded like a manifesto of monetarist despair.

The accompanying "Birmingham declaration" had been long touted in advance by the Mr Major's government as the reassuring answer to the complaints of the Euro-sceptics that Maastricht would subject us to a centralised Euro-state. But the declaration released on Friday evening is about as reassuring as a leaky balloon.

The Community's dilemma can be simply stated: Europe's governments are failing to persuade their electorates that the European Community, as it now functions, is providing answers to their real problems; and nothing that occurred last Friday will change that situation. In their communiqué on the economic situation, the heads of government said they were "concerned" at lower growth and increasing unemployment. Mr Major adopted an equally lofty tone at his concluding press conference, when he said that he "regretted" the plight of the miners his government had just decided to put out of work.

But the millions of unemployed, in Britain and elsewhere in Europe, are unlikely to be impressed by the 12 governments' statement of "concern", nor appeased by Mr Major's vacuous expression of "regret". On the contrary, they are only likely to be interested in Euro-babble if they get the impression that their governments, acting collectively, can do something to halt and then reverse the apparently ineluctable rise in unemployment.

Is this the impression that they would get from Friday's summit? In a word, no. On the contrary, all the 12 are able to offer is the same mixture as before. "Strong co-ordination at the Community level," they say, "will help to ensure that the economy of each member state is strengthened by the success of other member states." The problem is that there has been no effective co-ordination at the Community level (for example, over the fiscal imbalance in Germany which is helping to drive the rest of Europe to perdition); and it is not at all clear what particular "success" they have in mind.

The British and other European governments have tried to cover their policy nakedness, by laying the blame for Europe's troubles on over-centralism in Brussels. They would have us believe that we would all be better off if the Commission stopped interfering in every "nook and cranny". Hence last week's declaration on "subsidiarity".

There are just two problems with this subsidiarity issue: it is an off-shore principle which the UK government does not wish to apply in Britain; and in any case it is entirely irrelevant to the central concerns of the people of Europe.

"We reaffirm that decisions must be taken as closely as possible to the citizen," says the declaration. But it goes on: "It is for each member state to decide how its powers should be exercised domestically." In other words, Britain will continue to be governed by an elective dictatorship, as exemplified by the secretive cabinet decision on the pit closures.

Mr Major is not really interested in subsidiarity; he is merely lancing at the windmill of a non-existent European state, in the hope that this will make him look like the champion of the national interest.

In any case the subsidiarity issue is just a distraction. Does anybody seriously imagine that 49 per cent of the French voted No mainly because they were worried by "nooks and crannies"? Of course, the hunting-and-shooting extremists object to Community protection of migrant birds. But the main factor behind the No vote was obviously general economic fear.

Here is the nub. The problem is not really future fear of the Maastricht treaty, but present fear of the effects of the single European market, which is relentlessly compressing prices, costs, incomes and growth. The corollary of the new world of cost deflation is that it is putting in jeopardy the European model of society. In Britain this is called the welfare state; on the Continent it is called Christian or social democracy; all these variants are threatened by European and worldwide hyper-competition, because Europe is under increasing pressure to cut out all forms of economic activity which are not immediately profitable.

There is of course no magic solution; there are no national solutions, certainly not for Britain. But unless the 12 come up with some policies which seem likely to salvage both the prospects for economic growth and their traditional national models of society, the single market, the Maastricht treaty and even the Community itself could founder with all hands. And that would be a paradoxical and posthumous victory for Thatcherism.